

Atlantic alliance
Nato in search of
a broader vision
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Young pretender
Rudolf Scharping
German opposition leader
Interview: Page 32



The acid rain row
UK's record tarnished
by awkward diplomacy
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Clinton's next target
Can workfare
replace welfare?
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FINANCIAL TIMES

TUESDAY AUGUST 31 1993

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US troops detain UN staff in raid on Somali compound

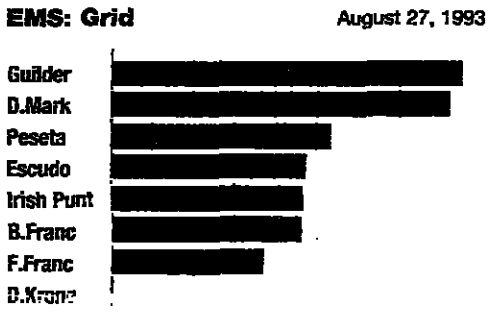
Crack US troops stormed two aid compounds in the Somali capital Mogadishu and detained foreign UN staff in an assault aimed at top lieutenants of fugitive Somali leader Mohamed Farah Aideed. Jamie McKindrick of the British charity Save the Children Fund called the raid "another blunder" by troops "with no experience in Somalia". But the UN denied the raid was bungled and criticised aid staff for living in buildings they were not authorised to use.

Delors seeks move to save Maastricht: European Commission president Jacques Delors warned that unless there was a bold "new initiative", the Maastricht treaty and its vision of economic and monetary union would be a dead letter. Page 14

ANC apologises for abuses: The African National Congress apologised for abuses, including torture, detention and murder, in detention camps it operated in the 1980s.

Ex-aide to Greek PM accused: Nikos Gryllakis, former senior aide of Greek prime minister Constantine Mitsotakis, was charged with being involved in a plot to tap the phones of opposition politicians.

European Monetary System: A renewed bout of pressure on the French franc, Belgian franc and Danish krone put more strain on the exchange rate mechanism's grid at the end of last week. At the close on Friday, some 8.13 percentage points divided the weakest currency in the system - the Danish krone - from the strongest - the Dutch guilder. The permitted fluctuation is 15 percentage points. Foreign exchange analysts believe the weaker ERM currencies could come under more pressure unless their interest rates are cut. Currencies, Page 27; Economics Notebook, Page 15



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. After the reform of the exchange rate mechanism on August 2, 1993, one member currency can rise against another by as much as 15 percentage points in the system's grid. The exception is the divergence between the D-Mark and the Dutch guilder, which remain tied to each other in a 2.25 per cent band.

Boardroom split at TNT: Tensions at the top of Australian transport group TNT surfaced in a boardroom split with the abrupt resignation of five directors, including founder Sir Peter Abeles. Page 15

Jackson calls off third concert: Singer Michael Jackson, accused last week in the US of sexually abusing a child, called off a concert in Singapore after collapsing backstage with acute migraine. It is the third concert he has postponed on a South-East Asian tour.

Hoechst earnings slide 31%: Weak domestic demand and restructuring costs were blamed by Hoechst, German chemicals group, for a 31 per cent slump in first-half earnings. Page 15

'No change' in French economic policy: The French government had no intention of "changing the direction" of economic and financial policy, economy minister Edmond Alphandery, said as the unemployment rate edged slightly higher to 11.7 per cent in July. Page 14

Haiti has new PM: Businessman Robert Malval was sworn in as Haiti's prime minister by exiled president Jean Bertrand Aristide, moving the nation closer to restoration of democracy.

Rio shanty massacres: Hooded gunmen opened fire on residents of a shanty area of Rio de Janeiro, Brazil, as they went to work, killing 21 people, according to a television report.

Moscow bomb kills businessman: A Greek businessman, identified only as N. Ladidis, was killed by a bomb which exploded in a car outside a hotel in the centre of Moscow.

Russian troops to pull out: Russian troops are to be withdrawn from Lithuania, in a move that should help restore relations between the two countries. Page 3

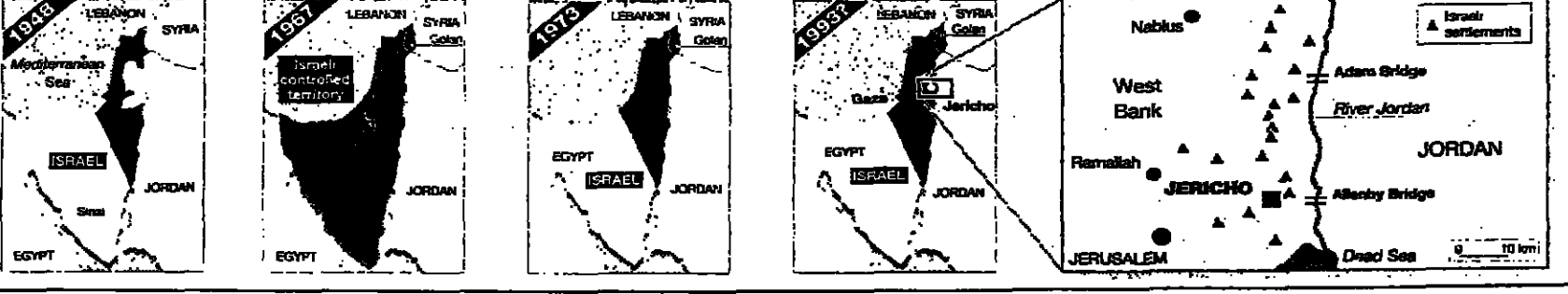
Flat TV screen unveiled: Matsushita of Japan launched a television screen which makes it possible to build a 36cm set less than 10cm thick.

STOCK MARKET INDICES		STERLING	
Tokyo Nikkei	20,912.69 (+21.01)	New York: DOW	3,491
New York: DOW	3,491	New York: S&P	487.80 (+1.29)
Dow Jones Ind. Ave.	3,491.30 (+8.87)	DOLLAR	
SCF Composite	487.80	DM	1.6745 (1.664)
US LUNCHTIME RATES		FF	5.5555 (5.5255)
Federal Funds	3.5%	Sw	1.4725 (1.4685)
3-mo Treas Bill Yld	3.08%	Y	103.85 (103.8)
Long Bond	7.61%	Gold	
Yield	6.11%	New York: COMEX	373.3
Gold		Dec	372.1
New York: COMEX	373.3	London markets closed	
Dec	372.1		

Austria	Sch30	Germany	D103.30	Malta	Mal10.00	Slovakia	Slo11.00
Bahrain	Bah1.00	Greece	Gri100.00	Morocco	Moc10.00	Spain	Sp11.00
Belgium	Bel100.00	Hungary	Hun100.00	Nepal	Nep10.00	South Africa	SA11.00
Bulgaria	Bul100.00	Ireland	Ir100.00	Nigeria	Nig10.00	Slovenia	Slo11.00
Cyprus	Cyp10.00	India	Ind100.00	Norway	Nor100.00	South Korea	SK11.00
Czech Rep	CZ100.00	Italy	Itl100.00	Peru	Per10.00	Sweden	Sw11.00
Denmark	Dan10.00	Japan	Jpn100.00	Philippines	Phi10.00	Switzerland	Swi11.00
Egypt	Egy10.00	Kuwait	Ku10.00	Poland	Pol10.00	Turkey	Tur10.00
Finland	Fin10.00	Lebanon	Lib10.00	Portugal	Por10.00	UAE	UAE10.00
France	FRF100.00	Lux	Lux10.00	Qatar	Qat10.00		

The changing shape of war and peace in the Middle East

Graphic by Bob Mitchell



Extremists from both factions threaten violent opposition to historic agreement



Israeli foreign minister Shimon Peres commends the peace agreement to a stormy parliamentary session

Israel committed to peace deal with Palestinians

By Julian Ouzanne in Jerusalem

ISRAEL last night committed itself to a historic peace agreement with Palestinians which could be a first step to ending a conflict which has wracked the Middle East for decades.

Mr Yitzhak Rabin, prime minister, said Israel would sign an accord with Palestinians at peace talks which resume in Washington today.

This is expected to provide, among other things, for a degree of Palestinian self-rule in the Israeli-occupied West Bank and Gaza Strip, and Israeli recognition of the Palestine Liberation Organisation, according to Mr Shimon Peres, foreign minister, who concluded the agreement in secret talks with a PLO representative in Norway last week.

Air Peres and Mr Rabin were speaking hours before an extraordinary session of the Israeli cabinet which was expected to approve the peace plan by an overwhelming majority. "The beginning of the end to the 100-year conflict between us and the Palestinians is coming," Mr Peres told parliament.

A senior official of the Palestine Liberation Organisation confirmed the agreement and said it could be signed within 48 hours. Egypt welcomed the move but Palestinian and Israeli extremists condemned it and warned of violent opposition. US president Bill Clinton sounded a cautious note. He warned that apparent good news in the Middle East had often turned into disappointment in the past, adding: "We've still got a long way to go."

The agreement is a comprehensive package providing for: a five year interim period of self-rule for 1.8m Palestinians in the territories occupied by Israel since the 1967 Arab-Israeli war; a partial Israeli military withdrawal from the occupied Gaza Strip and an undefined enclave around the West Bank town of Jericho; mutual recognition between Israel and the PLO.

If signed, and not derailed by Israeli and Palestinian extremists, the plan could hasten progress towards a comprehensive Middle East peace agreement between Israel and all its Arab neighbours.

Mr Rabin told ministers it was "a great step forward to advance Israel towards peace with all the neighbouring states and especially Palestinians. I believe this will happen."

The Palestinians will be granted full authority over their internal affairs including policing in Gaza-Jericho but will have lesser powers in the rest of the West Bank.

Jericho, a small dusty town in the parched Jordan Valley will become the administrative capital for the expanded elected Palestinian authority. Bethlehem will be the site of the lesser authority governing the rest of the West Bank.

Israel will redeploy its troops out of population centres in Gaza-Jericho but will remain to provide a security role for the estimated 6,000 settlers living on the outskirts of Gaza and Jericho. Israel will keep full control of occupied Arab East Jerusalem, the Israeli settlements and the Israeli-Jordanian and Israeli-Egyptian border crossings at least until talks begin on permanent arrangements two years after the interim agreement is signed.

Continued on Page 14

Norway plays the 'back-door' mediator

By Karen Fosli in Oslo

CLANDESTINE meetings on Norwegian farms and in the private homes of Norwegian officials helped secure the interim agreement on resolving the Middle East conflict, Norwegian officials said yesterday.

Mr Johan Joergan Holst, foreign minister, said his country's role as a "back-door" mediator was central to what he described as a historic breakthrough.

"Crucial" meetings in Norway and Tunisia took place between April and August this year, although Norway's involvement in the peace process began years earlier. In all, 25 meetings took place, all with the blessing of Washington, Mr Holst said.

Five Norwegian representatives, including two married couples, made up a special mediating team. Mr Holst was assisted in the meetings by his wife, Ms Marianne Helberg, a foreign policy researcher, and Mr Jan Ege-land, secretary of state in the foreign ministry. Also involved were Mr Terje-Roed Larsen, head of Norway's Trade Union Centre for Research and Documentation, and his wife, Ms Mona Jmøl, who works in the foreign ministry.

"The agreement will be signed when the time is ripe, and I tend to believe this could be in a matter of days," Mr Holst said yesterday.

Norway gained the trust and confidence of both the Palestine Liberation Organisation and Israel as the independent, secret mediator largely because of its long-standing traditional ties to Israel's Labour party, earlier meetings with PLO leader Yasser Arafat and status as a founding member of Nato.

Industry estimates published this month suggested that new car sales in western Europe had dropped by an estimated 20.1 per cent in July, contributing to a fall of 17.7 per cent over the first seven months of the year, compared with the equivalent period.

In the last week, DRI, the UK-based automotive analyst, has forecast a 16 per cent decline in new car sales in Europe this year. Volkswagen and Renault have announced poor financial results for the first half of the year; and Nissan, the Japanese carmaker, has said its UK plant may not achieve the rise in output forecast for this year.

The European Automobile Manufacturers' Association plans to release provisional figures for August sales shortly. "A little upturn in the UK has certainly not been enough to offset the terrible picture everywhere else," said a spokesman yesterday.

Under the terms of a 1991 "understanding" between the EC and Japan, Tokyo and Brussels agree informal annual limits on the export of cars and light commercial vehicles to the EC, to allow the Community to gradually open its market to full competition. The 1991 deal does not directly cover Japanese vehicles manufactured in Europe.

Continued on Page 14

French stance 'could sink Gatt talks'

By David Buchanan in Paris

LEADING trade negotiators expressed concern in Geneva yesterday that France is bent on undermining the Uruguay Round of talks on world trade liberalisation.

This follows French insistence that its European Community partners must water down a farm trade agreement with the US which Paris claims the European Commission should not have negotiated with Washington last November. French officials will this week continue discussions with Germany on Paris's proposed changes to the so-called Blair House accord on US EC trade in subsidised farm goods.

But in Geneva yesterday, trade officials from 106 countries, gathering for three critical months of negotiation intended to finalise the long-stalled Uruguay round, warned that reopening the Blair House agreement would scupper the round.

"If the EC were formally to ask for Blair House to be reopened, you can forget the Uruguay round," one leading negotiator said.

Continued on Page 14

TENDER ANNOUNCEMENT

CAIRO SHERATON HOTEL, TOWERS & CASINO

In the context of the Egyptian Government privatisation programme, the Egyptian General Company for Tourism and Hotels ("EGOTH") announces the sale and commencement of formal tendering for the Cairo Sheraton Hotel, Towers & Casino, a 9-royal suite, 104-suite and 547-room five-star hotel located in central Cairo.

An Information Memorandum describing the Hotel and a separate Bid Document may be obtained from Misr Iran Development Bank ("MIDB"), the exclusive financial advisor to EGOTH. Requests for either of these documents must include a brief description of the areas of activity of the interested bidder. Written requests should be sent to Misr Iran Development Bank, attention: Dr. Al-Motaz Mansour, Managing Director.

Bids will be due on October 4, 1993.

Financial Advisor
Misr Iran Development Bank
The Nile Tower
21 Giza Street, P.O. Box 219
Oman 12612
Giza, Egypt
Fax: (20-2) 570-1185
Tel: (20-2) 570-3459

MIDB's Financial Co-Advisor
Salomon Brothers International Limited
Victoria Plaza
111 Buckingham Palace Road
London SW1W 0SB
England
Fax: (44-71) 731-7894
Tel: (44-71) 721-2000

NEWS: INTERNATIONAL

Moslems cast doubt on peace prospects

By Laura Silber in Geneva

MR Alija Izetbegovic, Bosnia's president, yesterday cast doubts on the prospects of reaching a peace agreement when talks resume today in Geneva, saying "he felt like a thirsty man sent to find water in the desert".

Mr Izetbegovic, a Moslem, is due to meet his Serb and Croat adversaries after international mediators set this week's deadline for them to endorse the republic's partition.

A UN official yesterday warned against any side seeking "radical" concessions instead of minor territorial adjustments of the package put forward by peace envoys Lord Owen and Mr Thorvald Stoltenberg. "Those concessions and the whole package are not going to stay on the table indefinitely," said the official, adding "bits and bobs are one

thing but whole shopping lists are another".

The next days would determine whether the peace was to be given a chance or whether there was to be an intensified conflict, the official said.

Bosnia's ruling assembly rejected the "compromise package" at the weekend for failing to restore government control over territory that was mostly Moslem before the war. The assembly also criticised the plan for failing to provide sufficient Nato and US guarantees that it would be enforced.

After his assembly backed the plan, Mr Radovan Karadzic, the Bosnian Serb leader, repeated threats that the Moslems would be left with nothing if they rejected the offer.

Bosnian Croat leaders said they would seek some minor changes in the plan, reportedly along Bosnia's northern frontier with Croatia which, under

the proposed map, was mostly designated as part of the Serb republic.

The peace envoys have expressed their disappointment in failing to wring more concessions from Bosnian Serb leaders. Serb forces currently control about 70 per cent of Bosnian territory. The proposed map gives Serbs about 54 per cent, Croats 17 per cent, and Moslems some 28 per cent.

Lord Owen last week said the settlement was the best deal he could salvage for the Moslems, Bosnia's biggest ethnic group comprising 44 per cent of the pre-war population.

But Mr Izetbegovic, speaking after yesterday's talks were postponed until today because the Bosnian delegation had difficulties in leaving Sarajevo, was reported to have said: "Our people need peace, and the proposals being offered are worse than war."

As peace hopes fade attention again focuses on sanctions against Serbia Macedonia reluctant to plug gaps

By Kerin Hope

THE trucks cluster each evening in lay-bys close to Macedonia's border with Serbia, waiting for UN sanctions monitors to go off duty. But even if the monitors stay up late, the drivers, keeping in touch through walkie-talkies, can choose from dozens of unwatched tracks to cross the frontier.

As measures to enforce sanctions against Serbia and Montenegro have tightened along the Danube and Serbia's border with Bulgaria, Macedonia has become the main supply route for the rump Yugoslavia.

According to the UN protec-

tion force, which also monitors the border, about 4,000 trucks make the crossing in both directions every week. Vehicles carrying oil products, construction materials and spare parts for heavy machinery have been spotted, but not stopped.

The 38-member sanctions assistance mission, made up of customs officers from several countries, encourage the Macedonian customs service to inspect loads crossing the border. But it has no authority to enforce the sanctions.

"Once in a while the customs will follow our suggestions, but whole days go by when no trucks get inspected," said Mr Gordon Evers, a Canadian cus-

tom official leading the SAM team.

The rail link between Athens and Belgrade is still in operation. Two or three freight trains leave Skopje every night and tanker trains carrying oil head north several times a week.

Macedonia, which was admitted to the UN earlier this year, has formally backed the embargo against Serbia, its main trading partner. The government claims that the sanctions cost the Macedonian economy more than \$1.2bn (\$250m) last year.

However, government officials argue that the economy is so battered by the loss of trade

with Serbia, together with the effects of more than a year of diplomatic isolation, that it cannot be expected to apply sanctions fully unless compensation is guaranteed.

"We ask the UN about compensation and they refer us to the European Community. There's no money in sight, but we have to cope with another 15 per cent fall in industrial output this year and an unemployment rate of more than 30 per cent," says a government economic adviser.

Macedonian officials admit, too, that their enthusiasm for complying with sanctions has been diluted by delays in the arrival of Ecu100m (£76.4m) in

EC aid, promised last December.

Half of that amount is being contributed by member states on a bilateral basis, with the rest provided by the European Commission.

The government also claims it is being blackmailed into shipping oil to Serbia by Greece, which is Macedonia's main source for oil supplies.

According to a senior Macedonian official, Greece last month threatened to cut off all oil shipments to Macedonia unless half the supply from the northern Greek port of Thessaloniki, amounting to more than 80,000 tonnes monthly, was sent on to Serbia.

Red Cross to toughen stand over war crimes

By Frances Williams in Geneva

MR Cornelio Sommaruga, president of the International Committee of the Red Cross, warned yesterday that modern warfare would descend into "absolute chaos" if governments did not stop violations of humanitarian law.

Opening a three-day conference in Geneva on the protection of war victims, Mr Sommaruga stressed that signatories of the 1949 Geneva conventions and the 1977 protocols protecting non-combatants were committed not only to upholding the rules themselves but to ensuring others also did so.

The ICRC and the Swiss government, depositary state for the conventions, called the conference at a time of mounting violations of international humanitarian law. Red Cross and United Nations aid officials have described the fighting in former Yugoslavia as

the most savage in recent memory, but many other conflicts reveal a similar picture of carnage and brutality.

The ICRC is particularly alarmed by two new developments: the targeting of civilians as a war objective and the obstruction of humanitarian relief efforts, including attacks on aid workers and contempt for the Red Cross emblem.

Ministers and officials from some 160 countries attending the conference are expected tomorrow to endorse a declaration backing outside intervention to prevent violations of humanitarian law and supporting UN moves to establish a permanent war crimes tribunal.

The ICRC, which monitors the Geneva conventions, admits it faces a paradox. While urging signatory states to enforce the conventions, it maintains a neutral stance that prevents it from exposing specific wrongdoing or giving

evidence to a war crimes tribunal. "If they thought we were there to collect information they would not allow us to fulfil our mandate," Mr Sommaruga said recently.

However, this policy is being debated within the ICRC, which has been stung by criticism that it was slow to reveal the existence of detention camps in Bosnia.

At the same time there is no intention to emulate the UNHCR, which has ruthlessly exploited media coverage to shame the warring factions in Bosnia into allowing aid convoys through.

Another paradox is that many of those involved in current, mainly civil, wars - and most in need of reminding of "elementary ethics," as Mr Flavio Cotti, the Swiss foreign minister, put it last week - are not attending the conference. Invitations went only to UN members and observers.



A young Bosnian Moslem girl beside the grave in Mostar of her brother, who died in fighting earlier this year

Serbs count human cost

By Laura Silber

THE headlines in Belgrade newspapers each day reflect a human tragedy as the Serbian economy suffers under the weight of United Nations sanctions. "Babies are dying," one says, while others claim that "starving pensioners are committing suicide" and "grocery store shelves are bare".

After months of virtually ignoring the west, Serbian leaders have launched an offensive to get sanctions lifted on humanitarian grounds. Mr Milorad Ulemek, federal minister for foreign economic relations in the rump Yugoslavia, which comprises Serbia and Montenegro, said there was "great danger with the approach of winter. People will not be able to heat their homes."

The economic decline of Serbia shows no sign of bottoming out. Inflation in August ran at a monthly rate of 1,500 per cent. The Yugoslav National Bank yesterday issued a 1bn dinar banknote worth less than \$3.

Industrial production in June dropped by 37 per cent compared with the same month last year and hundreds of thousands of workers have been sacked as factories close. Serbian health care is suffering badly. Medicines and food

are not covered by sanctions, but "if you need surgery, bring your own medicines, needles, anaesthetics and linens, or commit suicide if you don't have money," said Mr Predrag Simic, director of the Belgrade institute of international politics and economics.

If a settlement is reached in Geneva this week for a partition of Bosnia, Serbia step up pressure for lifting sanctions. But if sanctions were eased, a victorious Serbian President Slobodan Milosevic would be rewarded for destroying Bosnia and creating Greater Serbia.

Russia has called for sanctions to be eased if progress is made on partition but the US says it is far too early even to discuss such measures. Proposals of sanctions on Serbia are convinced that they represent the only means of containing an aggressive state, which is now a regional military power.

However Mr Vladislav Jovanovic, Serbian foreign minister, warned that "sanctions have become the biggest generator of instability in the Balkans". Serbian officials point to a growing number of countries hit by 15 months of sanctions on Serbia: Greece, Romania, Bulgaria, Ukraine, and Hungary have all sustained large losses, while officials from Macedonia say sanc-

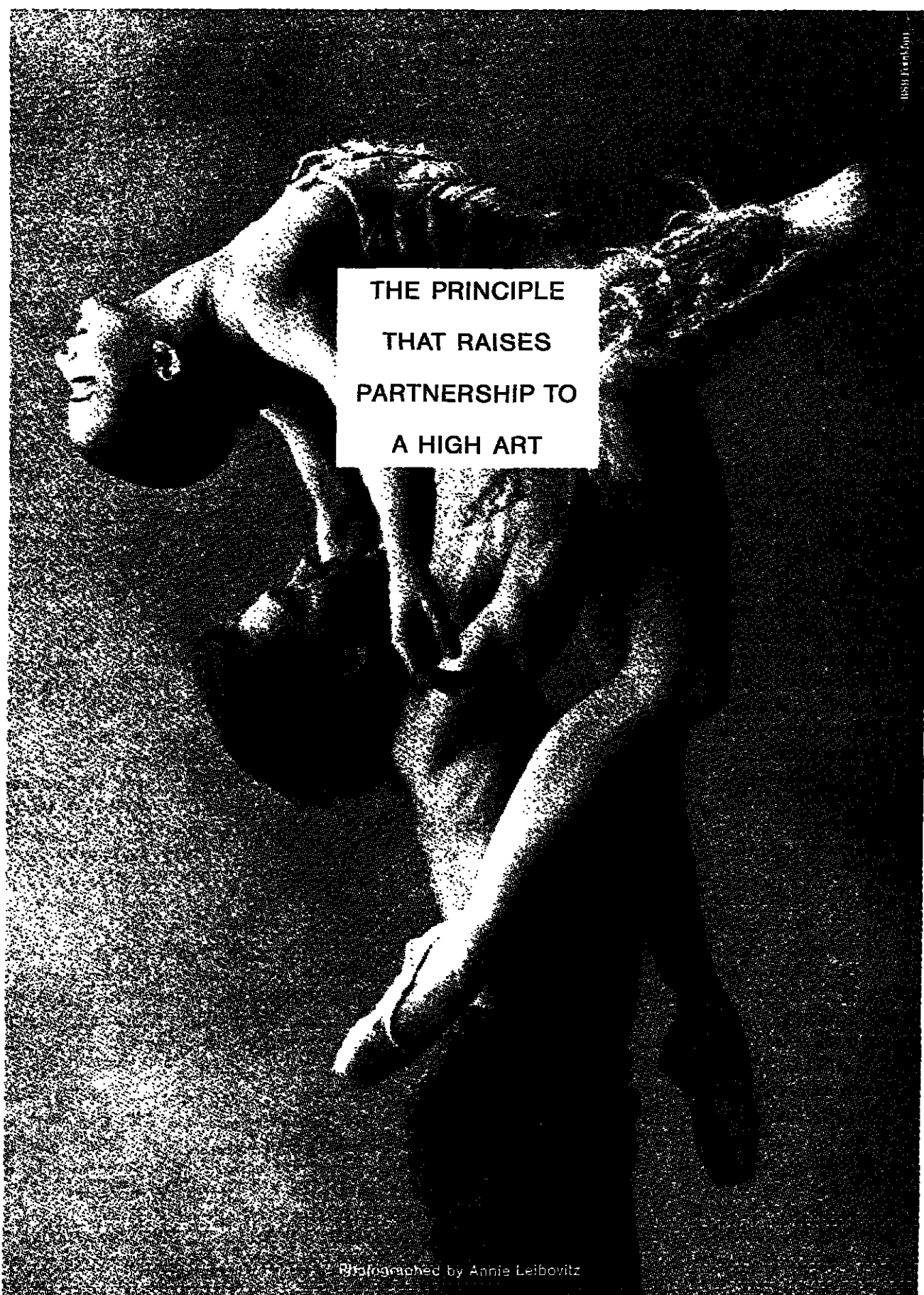
tions are harming the former Yugoslav republic even more than Serbia, its northern neighbour.

The imposition of sanctions against Serbia has proved to be one of the few issues on which the west was united. But removing them looks likely to be yet another divisive issue.

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Row splits Italian investigators

By Halg Simonian in Milan

MR Francesco Saverio Borrelli, the leading magistrate behind Italy's 18-month political corruption investigation, will have to take urgent action to restore the credibility of his magistrature when he returns to Milan today.

Deep divisions emerged among magistrates after the revelation last week that Mr Marcello Stefanini, treasurer of the Democratic Party of the Left (PDS), the former Communist Party (PCI), had been told he was under investigation for

SHAREHOLDERS in Montedison, the industrial subsidiary of Italy's troubled Ferruzzi group, yesterday gave its new management clearance to press for damages from five former executives and the heirs of Mr Raul Gardini, who killed himself last month, writes Halg Simonian.

alleged corruption and illegal political funding. The PDS has consistently denied involvement in the bribes which have tainted almost all Italy's big political parties.

Two magistrates argued on newspaper front pages over whether investigators had

deliberately held back from pursuing allegations against the PDS and the Communists. Ms Tiziana Parenti, the magistrate investigating the PDS, complained she had been isolated by her colleagues.

The interview provoked a sharp response from Mr Gerardo d'Ambrosio, Milan's

assistant public attorney, who has been running matters in Mr Borrelli's absence on holiday. Mr d'Ambrosio played down the allegations against Mr Stefanini, a PDS senator who was treasurer of the Communist Party before its metamorphosis into the PDS.

Mr Stefanini was alleged to

have been the intended recipient of L621m (\$390,000) paid by Calcestruzzi, the building materials subsidiary of the Ferruzzi group, to Mr Primo Greganti, a former PCI official. The money was alleged to have been a bribe in return for contracts won by Calcestruzzi from the Enel electricity generating authority.

While not denying the existence of the Swiss bank account into which the money was paid, Mr Greganti, arrested this year, has consistently denied the cash was for the PCI.

Bundesbank caught in a rates quandary

By David Walker in Frankfurt

ECONOMISTS who dared to speculate on the direction of German interest rates last week are now pondering the question of where German monetary policy goes from here after the decision not to cut rates.

The question is delicate at a time when there is suspicion in some European capitals that the Bundesbank takes pleasure in wrong-footing those who try to guess the timing and scope of future interest rate moves.

The economic factors governing policy are conflicting - inflation is on the way down, according to Mr Oskar Issing, the Bundesbank's chief economist and member of the policy-making directorate, and this should lead to lower interest rates. But money supply growth - the yardstick by which the German central bank steers its interest rate policy - is running well above the bank's target range.

Price stability and the defence of the German currency have long been at the core of Bundesbank policy. But there is another factor - the worst downturn in Germany since the second world war.

Mr Issing declared last Friday that monetary policy

would increasingly take its cue from the German recession, implying that the Bundesbank wanted to do its bit to alleviate the problems suffered by German industry.

In practice, however, Mr Issing's concern about the recession is likely to mean that interest rates will eventually come down, but only at a slow pace. Comments by Mr Hans Tietmeyer, vice-president and president elect of the Bundesbank, also point to lower rates and concern for the wider economy. Mr Tietmeyer said recently that further appreciation of the D-Mark within Europe was undesirable in the light of German exporters' need to remain competitive.

But the Bundesbank finds itself between a rock and hard place. On the one hand it wants to cut rates, which would help alleviate the recession. On the other, despite signs inflation is on its way down, the Bundesbank is still constrained by money supply growth. As it never tires of explaining when setting out its ideological stall, current money supply growth is the determinant of inflation two or three years down the road.

To some extent, the latest M3, or broad money, figure is distorted - chiefly by the effect

of the Bundesbank's interventions in the currency markets in recent months. This will feed through into the August number and will ensure that for a fifth month M3 growth will exceed the target.

"The big problem is that the Bundesbank has not successfully dealt with an increase in money supply which dates back to German reunification [in 1990]," says Mr Joachim Sachs, economist at Goldman Sachs in Frankfurt. "The reason we have high inflation now is because of monetary growth several years ago."

The Bundesbank's room for manoeuvre is helped by the widening of fluctuation bands within the exchange rate mechanism. The most likely next step is a cut of 50 basis points at most in the discount rate. This is currently at 6.75 per cent and a cut from this level could be justified on "technical grounds" because of the narrow margin between this rate and current money market rates.

"The Bundesbank likes to engage in practical psychology," says Mr Sachs. "It must strive to keep hopes of further interest rate cuts alive. The only way it can do this is by giving the market less than it expects, and more slowly."

Rich pickings for Polish entrepreneurs

By Gillian Tett

THEY are usually aged between 36 and 45 years. Most have a background in science or engineering. And - perhaps inevitably - nine out of 10 are men. Three years after Poland embarked on its "big bang" policy of economic liberalisation, the new entrepreneurs are not only thriving, but providing the backbone of the country's attempts to emerge from recession.

Even more significantly - according to a recent study by the International Finance Corporation - the focus of their market skills is shifting. Instead of simply trading, as they did in the early days, in imported "luxuries" such as alcohol or frilly undergarments, Polish entrepreneurs are moving into manufacturing, producing goods ranging from car parts and plastics to homeopathic remedies.

The IFC says the shift has left Poland's private sector arguably the best developed in east Europe, providing more than 50 per cent of Poland's GDP and employment.

For those who wonder whether this can be repeated elsewhere in eastern Europe, the IFC's case studies are illuminating.

The key to the Polish would-be capitalists, the study claims, their economic

"agility". Poland is apparently peppered with academics who have turned their hand to producing hot dog kiosks, farmers who have switched their skills from hop growing to spice marketing, and engineers who have moved from metal work to meat processing to publishing and back again.

With credit hard to raise, and interest rates high, most starting capital has come from family funds, often gained from speculative trading during the late 1980s.

Nevertheless, a familiar litany of problems remains: loans are difficult to obtain, trading bureaucracy is Byzantine, market information is scarce, and almost all entrepreneurs report being plagued by that old problem - the crackly telephone.

For those who hope that the swarms of post-Communist Russian, Romanian or Estonian street vendors will soon be following a similar path, the IFC issues a proviso.

Poland, it points out, had had a tradition of private agriculture and even some private business right through the Communist period. Many of these "new" entrepreneurs, it transpires, had been quietly operating for up to 10 years.

Coping with Capitalism: The New Polish Entrepreneurs. The International Finance Corporation, 1818 H Street, N.W. Washington DC.

Troops will leave Lithuania 'today'

By John Lloyd in Moscow and Matthew Kaminski in Vilnius

RUSSIAN troops are to be withdrawn from the Baltic republic of Lithuania today on schedule, Mr Algirdas Brazauskas, the Lithuanian president, said yesterday in a national radio address.

A spokesman for Russian President Boris Yeltsin later confirmed the troops' withdrawal, but refused to say if it would be today.

The normally good relations between Russia and Lithuania were soured earlier this month when Russia said it would suspend the withdrawal of 2,500 service personnel and their families because Lithuanian negotiators had insisted on raising the issue of compensation for damage done since the first Soviet occupation in 1940. No figure was mentioned, but Lithuanian newspapers reported that a sum of about \$150bn was mentioned.

Mr Brazauskas said the question of compensation would be "the object of further talks" - a formula which appears to have satisfied Moscow.

Russia is in neither the mood nor any condition to make rep-

arations for a Soviet past it disavows.

Evidence of this came yesterday when Mr Sergei Filatov, chief of staff to Mr Yeltsin and chairman of a commission to determine events which led up to the shooting down in 1983 of the South Korean civilian airliner KAL007 over Soviet airspace, said that the Soviet Union bore no guilt for the incident.

Mr Filatov said pilot error had taken the plane 350 miles off course, deep into Soviet airspace.

Mr Hong Soon-young, South Korea's deputy foreign minister, said in Seoul yesterday that his government would reschedule debts owing to South Korea on cash loans of \$1bn and that credits of \$470m, on which Russia has paid only \$12.7m interest from a promised \$36.8m payback.

A further \$1.53bn of a \$3bn aid package extended to the former Soviet Union in 1990 has been frozen at Russia's request, Mr Hong said. "They have said the interest rates and other conditions on the South Korean loans were unfavourable."

Setback for Shell, Exxon

By Karen Fosell in Oslo

NORWAY'S Industry and Energy Ministry has rejected applications for new oil and gas exploration offshore acreage submitted by the Norwegian subsidiaries of Royal Dutch/Shell and Exxon Corporation, according to leaked reports.

Mr Finn Kristensen, industry and energy minister, is due tomorrow to announce the award of 50 blocks of new acreage offered under Norway's 14th licensing round. Both companies said yesterday they had submitted "selective" applications based on their

respective technical and profitability assessments of the blocks on offer. Neither Shell nor Esso, Exxon's Norwegian subsidiary, said they had demanded "special" conditions or treatment of their applications.

Mr Einar Knudsen, director of information at Norske Shell, said the company had told energy officials that its return on investment for exploration drilling had to increase.

Both Norske Shell and Esso have criticised Oslo's tough fiscal and licensing regimes. Other foreign oil companies have said that Norway, which faces tough competition from

emerging oil and gas producers, should provide incentives for maintaining foreign investment.

"It takes longer for opportunities in new areas to materialise and I think Norway is exploiting this opportunity to drive a hard bargain while it can," one industry official said yesterday.

● Norway's ruling Labour party, facing a general election next month, got a boost from a poll yesterday showing that Norwegians backed its controversial decision to seek membership of the European Community. Reuter reports from Oslo.

NORMAN AND PARNEVIK COLLECTED THE TROPHIES. BUT HAMILTON AND NICHOLSON REALLY CLEANED UP.

At Waste Management International plc, we like to be recognised for our ability to offer advanced, technological solutions to tough environmental challenges. But we also enjoy our reputation as people who can really clean up. Anything, anywhere and anytime.

Take golf, for example. For eight days in July, two famous British golf venues, Royal St. George's and Gleneagles, played hosts to The Open and the Bell's Scottish Open championships.

You may have been watching on TV as Greg Norman littered his card with birdies and eagles, and Jesper Parnevik laid waste to his opponents.

If so, you would have also seen some of the 300,000 plus players, officials, sponsors, commentators, exhibitors and spectators who descended on the courses. But you certainly wouldn't have seen the hundreds of tonnes and hundreds of thousands of gallons of wet and dry waste that those visitors left behind.

That's because Hugh Hamilton, Alistair Nicholson and their teams from UK Waste Management, our British joint venture company, really did clean up at both events.

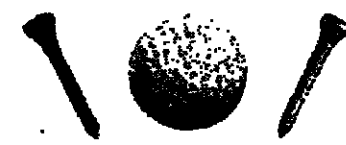


And while Jesper and Greg were taking the Opens to the cleaners, Hugh and Alistair were taking around 300 cleaners to the Opens. They also took 400 plastic wheelie bins, several trucks,

vans and tankers, and even a couple of motorbikes with trailers to take the waste away.

And months of careful planning ensured their hard work was carried out, quickly, efficiently and unobtrusively.

At Waste Management International, cleaning up at golf is par for the course. Be it The Open or the Scandinavian Masters. And some of our restored landfills even provide leisure space as golf courses. Yet it's only a minor part of what we do.



Today, we provide environmental services for over 150,000 businesses and for millions of households in 16 countries across the world. Our operations encompass collection, treatment, recycling and incineration of most types of waste materials, landfill disposal, waste-to-energy facilities, waste water treatment, contaminated site remediation, and on-site waste reduction and minimisation services.

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TENDER INVITATION

The Hungarian State Property Agency

by involvement of

MERITUM Trust & Investment Co.

announces an open tender

for the entire or partial sale of the state-owned shares making

51% of the registered capital of

PÁTRIA PRINTING HOUSE Company Limited by Shares.

The registered capital of PÁTRIA Printing House Company Limited by Shares amounts to HUF 916,000,000, out of which 95.5% are owned by the Hungarian State and 4.5% by the municipalities.

In addition, the company has a capital reserve of HUF 205,808. For making the bids the tenderers shall deposit a bid bond amounting to HUF 10 million or its foreign exchange equivalent, providing cover for the privatization cost, too.

The bids can be submitted provided the tenderers have purchased the bidding documents including the order of procedure and the information memorandum at the address of MERITUM Trust & Investment Co. Before taking over the bidding documents the tenderers shall sign a Statement of Secrecy concerning the data and information received. The price of the bidding document package is HUF 30,000, plus VAT.

The bids shall be submitted in three copies under closed cover without letterhead, marking the original copy, not later than

4.00 pm on 18th October 1993

at the secretariat of MERITUM Trust & Investment Co.

Address: 1146 Budapest, Hermina út 17. 10th floor 1005

The tenderers shall undertake to maintain their bids for 90 days.

The State Property Agency reserves the right to declare the tender unsuccessful.

For further particulars in connection with the tender please apply to Mr. László

Mészáros (Phone: (36)-1-123-9898, (36)-1-141-4357, Fax: (36)-1-251-1874.

China to set up credit bank for capital projects

By Tony Walker in Beijing

CHINA is to establish a credit bank to fund large capital projects, as part of long-awaited and extensive reforms expected in the moribund banking sector.

Mr Lou Jiewei, a senior official of the Commission for Restructuring the Economy, said at the weekend that the Long-Term Development and Credit Bank, planned for early next year, would fund projects in "vital sectors", such as those of energy and transportation.

Mr Lou, a close adviser to Mr Zhu Rongji, China's senior vice-premier in charge of the economy, also confirmed that an Export-Import Bank would be established in the new year to "stimulate" exports of machinery and electronics.

Announcement of the formation of the new policy-lending banks, plus indications that the People's Bank of China (PBOC) would have its functions as a central bank more clearly defined under a new central bank law, follows extensive consultation with officials of the World Bank, the IMF and other international institutions.

World Bank officials have urged China to relieve its specialised banks of the policy-lending burden for large capital works projects. "Priority investment, especially in long-



MUCH ADO AND MUCH TO BE DONE: A Chinese worker (left) cycles past the toll gates of a new highway, near Beijing's international airport, due to be opened next month. Meanwhile, water spills at the weekend from a ruptured dam at a reservoir in China's remote north-western Qinghai province. The flood obliterated several villages, 223 people were killed and 180 were missing

gestation or very expensive projects, belongs to an institution similar to the policy banks," described by Chinese economists, a World Bank report said.

"These investments could be financed by government-guaranteed bonds. This would obviously be accompanied by re-focusing the attention of

existing banks on commercial activities. This will require much-strengthened supervision capacity in the central bank," the report said.

Chinese officials indicated at the weekend this process was already under way, with emphasis on tightening the regulatory functions of the People's Bank of China under

Mr Zhu's governorship.

Among the World Bank's recommendations is that the PBOC be shorn of its non-central bank functions such as ownership of securities companies and mutual funds to allow it to "focus on its primary role as a central bank", on the lines of the US Federal Reserve.

Western bankers in Beijing say that any step towards strengthening and streamlining the central bank's operations is welcome, but they are sceptical about plans for sweeping reforms of the banking sector.

They point out that China's "big four" specialised banks - the Industrial and Commercial Bank, Bank of China, Con-

struction Bank and Agricultural Bank - are heavily burdened by non-performing loans to state enterprises.

Transformation of these institutions into commercial banks would require an enormous commitment of government funds which may well prove beyond the resources of the central government.

The World Bank, in its recommendations, suggested that subsidies for loss-making state enterprises and allocations for agricultural procure-

ment be removed as "a matter of priority" from the responsibility of the banking sector.

"This type of lending," the bank said, "belongs to the budget."

Tighter watch on Mexican banks

MEXICO'S recently-privatised banks will issue quarterly reports to give investors a clearer picture of their financial health, according to the National Banking Commission, writes David Luhnow in Mexico City.

New regulations will force the nation's banks to issue, as of next month, reports that detail, among other things, levels of reserves and rates of bad loans, said officials.

Since the government bank privatisation ended a year ago, rates of bad loans have risen sharply.

Guatemalan call

Guatemalan President Ramiro de León has demanded that members of Congress and Supreme Court judges resign as part of his campaign to rid state bodies of corruption, writes Edward Orlebar in Guatemala City.

This follows weeks of criticism in the media and among civilian organisations, which have called for a purge of Congress and the court.

Malaysian fine

Mr Ibrahim Mohamed, a prominent Malaysian businessman, has been fined M\$500,000 (US\$190,000) for his share-dealing on the Kuala Lumpur market this year, writes Kieran Cooke in Singapore. He pleaded guilty to illegal dealing in Union Paper Holdings, a small paper mill operator listed on the second board of the Kuala Lumpur exchange.

Hurricane alarm

Thousands of people left islands off North Carolina as Hurricane Emily, swept in towards the US east coast yesterday, Reuters reports. The National Hurricane Center in Florida issued a hurricane watch for the coastline from mid-South Carolina to the Delaware border. Emily was located 350 miles south-east of Cape Hatteras and was moving west-northwest at nine mph.

New homes sales down, trade deficit up, in US

By Michael Prowse in Washington

SALES of new homes in the US fell 5 per cent in July compared to June, raising new doubts about the health of the housing market, the Commerce Department said yesterday.

In a separate report, it said a surge in imports had resulted in a US trade deficit of \$31.4bn (\$23.2bn) in the second quarter, the biggest shortfall in more than five years.

The weakness of new home sales puzzled analysts, as it had followed a recent drop in mortgage rates to the lowest

level in more than two decades and a report last week of a robust 5.4 per cent gain in sales of previously owned homes last month. Sales fell in all regions, not just the flooded parts of the Midwest.

Figures for June were also revised down sharply to show a gain from May of only 3.3 per cent, rather than the 11 per cent initially reported.

The unexpected weakness since May left sales running last month at a seasonally adjusted annual rate of \$29,000 - far below Wall Street projections of about \$35,000. For the first seven months of the year,

however, sales were still nearly 7 per cent higher than in the equivalent period last year.

The trade deficit rose 17 per cent in the second quarter compared to the first, mainly because consumer and investment demand in the US is much stronger than in its recession-hit trading partners.

Exports rose 1.4 per cent from the first quarter to \$113.1bn; imports rose 4.7 per cent to a record \$147.5bn.

The annualised deficit in the first half was \$127.4bn compared with \$96.1bn for the equivalent period last year.

Mandela refuses to punish ANC offenders in human rights cases

By Patti Waldmeir in Johannesburg

MR Nelson Mandela, president of the African National Congress, yesterday refused to punish ANC officials found guilty by the organisation's commission of inquiry into murders, torture and other human rights abuses in ANC prison camps in the 1980s.

The commission, which was appointed by Mr Mandela, last week called on the ANC to punish those involved in the deaths of 22 detainees, and other cases of abuse and injury, and to pay compensation to victims or their families. Mr Man-

ela rejected these recommendations, calling instead for a "Truth Commission" to investigate all cases of human rights abuse, including those involving government officials.

Mr Cyril Ramaphosa, the ANC secretary general, drew a distinction between abuses carried out in defence of apartheid, and those committed in the fight for liberation. Asked whether the ANC believed that the ends justified the means in cases of human rights abuse, Mr Mandela replied: "You can draw your own conclusions."

He said the ANC accepted "collective responsibility" for what happened. He

went on to excuse the abuses by saying that they were committed "in an attempt to prevent violations of human rights by the other side". Mr Mandela said any compensation to victims would have to be paid by a future government, not by the ANC.

Meanwhile, he announced that Mr Thabo Mbeki, a leading moderate, had been elected national chairman of the ANC. This will boost Mr Mbeki's chances to succeed Mr Mandela as president. Mr Ramaphosa, another moderate, is the other possible successor, though he has come under increasing criticism for making too many concessions to whites.

Nigerian government faces stern test

By Leslie Crawford in Lagos

THE INTERIM government of Nigeria faces the first real challenge to its authority today.

If a national strike called by unions and the pro-democracy movement can hold firm on the first working day after a long weekend, the economic pressures on the new government installed by the country's military will be considerable.

For the main business and industrial centres, Lagos and Ibadan, will have been paralysed for nearly a week by absenteeism and strikes.

The Nigeria Labour Congress called its members out on Saturday to protest against the former military government's failure to return the country to full democracy. The congress wants the interim government to honour the result of the presidential election in June, which was annulled by Gen Ibrahim Babangida, the military ruler who stepped down last Thursday.

Oil workers have been on strike since Saturday, but production of crude for export was not thought to be affected. Civil service unions say they will walk out from today.

Road transport is paralysed due to a chronic shortage of locally refined fuel.

The introduction last week of a two-tier price system for petrol, with a new grade costing 10 times the price of the current subsidised fuel, has led to panic buying.

Chief Ernest Shonekan, Nigeria's new head of government, on Sunday ordered the release of three prominent political prisoners and several journalists detained on conspiracy and sedition charges. But a military decree to ban several opposition newspapers and magazines is still in force.

Mr Beko Ransome-Kuti and fellow lawyers Mr Gani Fawehinmi and Mr Paul Palama had been jailed since July 7 for organising demonstrations against the cancellation of the presidential poll results. They support the claim to the presidency of Chief Moshod Abiola, the Moslem millionaire businessman credited with having won the contest.

The pro-democracy campaign is planning to hold rallies in the northern cities of Kano and Kaduna, where support for their demands has been lukewarm. See editorial comment

Iraq weapon

UN weapons inspectors investigating Iraq's missile installations say they are struck by their remarkable similarity to Argentina's Condor II missile complex, closed in 1990 by President Carlos Menem. UN officials recently in Argentina were quoted as saying the similarity of the production plants and missiles gave them insights into how the larger Iraqi project worked. Argentina, Iraq and Egypt co-operated closely in developing missile technology in the 1980s.

Chile bank reform proposed

THE CHILEAN government has proposed a solution to the \$4bn (\$2.65bn) subordinated debt issue that has plagued domestic banking for a decade, writes David Pilling in Santiago.

Ten of Chile's commercial banks owe the central bank \$3.5bn. This dates back to 1983 when the state took over their non-performing loans to prevent a collapse of the banking system. Banks have since been obliged to repurchase these debts yearly by handing over 70 per cent of their after-tax profits to the central bank.

A reform bill, to be sent to Congress today or tomorrow, seeks to end the repayment period after 40 years. Banks with a realistic chance of achieving this would continue to pay the 70 per

cent of profits to the central bank, but would be subject to an "efficiency test" stipulating a minimum rate of profit. Those with less prospect of repurchasing all their outstanding debts within the 40 years - which include Banco de Chile and Banco de Santiago, two of the country's biggest - would issue convertible bonds to cover the shortfall. This would imply a dilution of existing shareholder stock, and is likely to be controversial in Congress.

In return for their agreement to new repayment terms, banks - participating voluntarily - would be allowed to take on new activities such as factoring, securitisation and setting up international finance consultancies abroad.

Bond returns may be flattering to deceive

SOMETHING unprecedented in the post-war era has been happening over the last few years: bonds have been a better investment not only than cash but even than equities. The question is how long this performance can last.

A report published in July by a British investment advisory boutique brings together the facts and assesses both the process and the prospects. The chart taken from that paper, shows the value of an assumed investment in the Standard & Poor's composite index, with reinvestment of dividends, since 1967, relative to cash. Over the entire period the lucky investor would have earned 3½ times more in equities than in cash.

Not so the hapless investor in bonds. Over the same years the value of a US bond portfolio, with reinvestment, would have fallen by about a quarter, relative to cash. The UK offers a similar picture, although Germany, not surprisingly, is a country where bonds have been a somewhat better investment than cash.

Bad things, like good things, do come to

an end. The turnaround for US bonds relative to cash came in the early 1980s, thanks to Paul Volker's disinflationary heroics at the Federal Reserve. More remarkably, global returns on bonds have outstripped those on equities since 1987, while returns on bonds have exceeded those in equities in each of the main financial markets since 1990. The advantage of bonds has been very small in the US, where the equity market has been buoyant, but huge in Japan. A Japanese investor who bet on the bond market in 1990 would have made 31 per cent per annum more than in the equity market, on average, since then. In the UK the margin in favour of bonds has been 5 per cent per annum, on average, over the period.

Theory suggests that *ex ante* returns on different assets should be the same, allowing for risk. So equities should be more profitable than bonds and bonds more profitable than cash over any long period. This is not what has tended to happen.

Furthermore, if the return on bonds is to be the same as that on cash, allowing for

risk, a steep positively sloping yield curve, such as the one now in effect in the US, implies that bond prices are expected to fall and *vice versa*. If bonds have returned much less or more than cash, these expectations cannot have been fulfilled. Up to the early 1980s bond prices fell more than expected. Since then they have risen more than expected. The main reason for this is that inflation outstripped expectations for a long period. But since the early 1980s the reverse has been the case.

The authors of the study argue, however, that the reason for the market's mistakes has not just been unanticipated developments in inflation. The market has also not been processing the information available to it efficiently. In particular, bond prices should be relatively high when short-term interest rates are much below long ones, because bond prices should then be expected to fall, and *vice versa*. In fact, the yield gap has been a poor predictor of subsequent changes in bond prices. The authors of the report argue that they have been able to identify

better predictors, which means that an active trader should be able to earn higher returns than a passive holder of bonds.

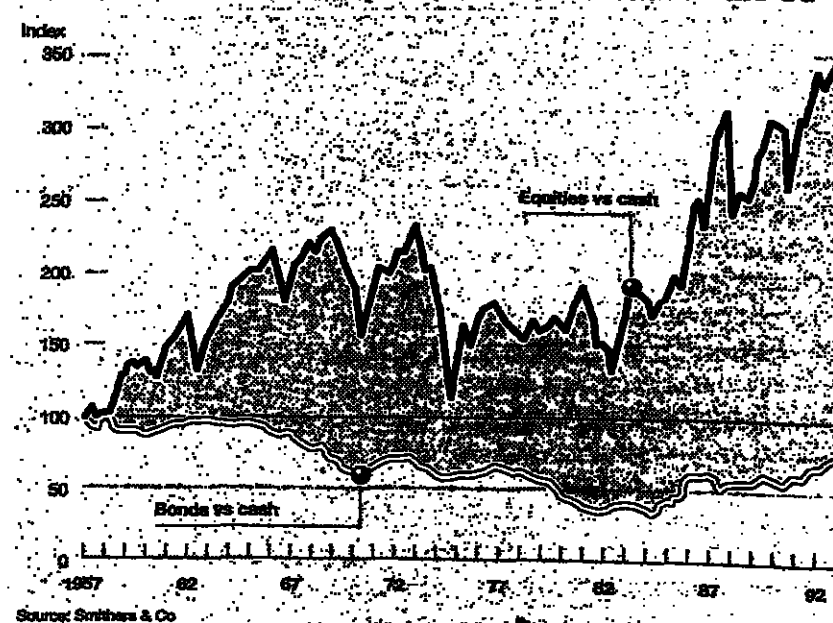
What now? Whether or not traders can outperform the market, the principal determinant of exceptionally high relative returns on bonds is bound to be unexpectedly low inflation (or unexpectedly low real rates of interest). Since the inflation expectation implied by present bond yields is already around 3 per cent in the US, the chances of further favourable inflation surprises may be relatively low.

At the same time a trading rule the report recommends is to hold bonds when the gap between bond yields and short rates has recently risen and hold cash when it has recently fallen. On that basis too, the chances of further high returns may be modest, at least on US bonds.

Martin Wolf

Andrew Smithers and Stephen Wright. The Outlook for Bonds, July 1993. Report No. 43. Smithers & Co. London. Tel: 071 377-3765; fax: 071 377-3222.

Returns on bonds and equities relative to cash in the US



INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES										JAPAN										GERMANY										FRANCE										ITALY										UNITED KINGDOM									
Money Rate (%)	Broad Rate (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Money Rate (%)	Broad Rate (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Money Rate (%)	Broad Rate (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Money Rate (%)	Broad Rate (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Money Rate (%)	Broad Rate (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Money Rate (%)	Broad Rate (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)																									
1985	9.0	8.00	10.59	n.a.		5.0	9.2	6.82	9.51	n.a.		4.3	5.1	5.45	6.94	n.a.		6.2	7.4	10.03	11.74	n.a.		13.2	13.5	14.34	13.71	n.a.		4.7	18.2	12.82	9.21	n.a.																									
1986	13.5	8.3	6.49	7.67	3.43	6.9	8.2	5.12	5.35	0.84	10.0	8.3	4.84	5.90	1.79			6.9	8.8	7.79	8.74	2.85		4.0	18.3	11.02	9.97	4.35		4.7	14.8	9.77	3.82	3.50																									
1987	11.6	6.5	8.82	8.39	3.12	10.5	11.5	4.15	4.84	0.55	9.0	7.3	4.03	6.14	2.21			4.1	9.9	8.26	4.86	2.75		10.4	8.9	11.22	10.58	1.94		4.7	10.8	9.77	3.52	3.50																									
1988	4.3	5.2	7.85	8.84	3.61	8.4	10.4	4.43	4.77	0.54	9.7	6.4	4.34	6.46	2.61			3.9	8.4	7.94	9.08	3.69		7.8	6.9	11.24	10.54	2.71		6.8	17.0	10.41	9.89	4.48																									
1989	1.0	3.9	8.98	8.49	3.43	4.1	10.8	5.31	5.22	0.48	8.3	5.8	7.11	6.94	2.22			8.1	9.5	8.35	8.79	2.88		7.1	8.2	12.41	11.61	2.46		5.9	17.5	13.98	10.30	4.38																									
1990	3.7	5.3	8.06	8.54	3.80	2.6	8.5	7.62	6.91	0.65	4.5	4.5	8.49	6.71	2.11			3.7	9.0	10.32	9.92	3.19		9.3	9.1	11.98	11.87	2.84		5.3	18.0	14.82	11.53	5.07																									
1991	5.9	3.3	5.87	7.85	3.21	5.2	2.0	7.21	6.37	0.75	5.1	5.8	9.25	8.44	2.38			4.7	2.8	8.82	8.03	3.58		7.3	8.0	11.88	13.20	3.45		2.4	8.2	11.58	10.04	4.07																									
1992	12.4	2.0	3.75	7.00	2.85	4.5	-0.4	4.28	6.25	1.00	7.1	8.2	9.82	7.77	2.45			0.1	5.5	10.36	8.57	3.55		6.7	7.5	13.88	13.59	3.69		2.3	5.2	8.73	9.09	4.91																									
4th qtr.1992	12.6	1.8	3.25	6.81	2.98	3.2	-0.5	3.90	5.10	1.08	6.6	8.8	9.72	7.88	2.53			-0.2	4.8	10.58	8.90	3.67		5.9	6.8	16.14	13.83	4.02		2.4	5.3	10.39	9.21	5.21																									
1st qtr.1993	14.3	1.6	3.55	6.73	2.94	2.0	-0.4	3.67	4.78	1.03	10.7	9.6	8.98	7.34	2.67			0.8	5.2	11.83	7.65	3.26		2.6	6.2	11.83	13.13	3.04		4.4	3.8	8.45	8.45	4.64																									
2nd qtr.1993	11.8	0.9	3.18	5.98	2.80	3.2	1.4	3.09	4.55	0.83	9.5	8.6	7.88	6.73	2.24			1.2	2.8	8.00	7.08	3.33		2.4	6.0	10.82	12.48	2.48		4.2	3.6	8.00	7.92	4.04																									
August 1992	12.4	1.6	3.37	6.59	2.95	3.7	0.3	3.75	5.03	1.12	8.1	8.7	9.88	7.99	2.80			-1.2	5.4	10.39	8.06	3.71		5.3	6.5	15.27	13.71	3.94		2.5	5.4	10.43	9.37	5.33																									
September	13.5	1.8	3.24	6.41	2.98	2.9	-0.5	3.74	4.89	0.98	8.3	9.3	9.50	7.85	2.62			-0.2	4.8	11.12	8.75	3.61		5.0	6.1	17.82	14.14	4.35		2.2	4.8	10.54	8.99	4.63																									
October	14.4	2.0	3.32	6.58	3.02	2.5	-0.6	3.71	4.90	1.04	8.5	10.4	8.95	7.38	2.72			1.8	6.3	11.12	8.43	3.83		5.5	7.3	15.33	14.36	3.95		2.4	5.2	8.46	8.99	4.63																									
November	14.4	1.8	3.86	6.86	2.84	1.6	-0.6	3.85	4.76	1.05	11.2	9.7	8.94	7.38	2.85			0.4	6.1	9.77	8.14	3.70		2.5	5.8	14.53	13.48	4.48		2.0	4.3	7.92	8.27	4.80																									
December	14.2	1.5	3.67	6.75	2.87	1.9	-0.4	3.84	4.70	1.00	12.5	9.7	9.03	7.29	2.84			0.1	5.9	11.35	8.20	3.64		0.4	4.4	13.90	13.68	3.61		2.8	3.7	7.24	8.38	4.40																									
January 1993	14.4	2.0	3.32	6.58	3.02	2.5	-0.6	3.71	4.90	1.04	8.5	10.4	8.95	7.38	2.72			1.8	6.3	11.12	8.43	3.83		5.5	7.3	15.33	14.36	3.95		2.4	5.2	8.46	8.99	4.63																									
February	11.5	0.2	3.18	6.25	2.87	2.3	0.1	3.15	4.31	1.01	9.2	7.3	9.03	6.94	2.45			0.5	8.4	12.16	7.93	3.56		2.2	4.2	12.73	12.49	3.61		2.8	3.1	7.04	8.33	4.40																									
March	10.7	0.2	3.17	5.97	2.78	0.9	-0.4	3.13	4.19	0.97	10.0	7.6	7.98	6.88	2.27			0.6	5.2	11.27	7.33	3.19		3.5	6.8	11.41	12.82	2.85		4.9	3.8	8.04	7.85	4.58																									
April	9.3	0.2	3.15	5.86	2.81	0.5	-0.5	3.08	4.42	0.85	9.1	8.7	7.92	6.83	2.25			-1.6	4.7	9.06	7.14	3.25		1.9	5.8	11.48	13.13	2.75		4.8	3.5	8.02	7.81	4.00																									
May	12.0	1.1	3.14	6.02	2.81	3.3	1.5	3.09	4.64	0.82	9.3	8.5	7.83	6.80	2.27			2.3	5.4	7.16	7.38	3.28		3.3	6.1	10.80	12.50	2.55		4.3	3.5	8.02	7.81	4.00																									
June	12.4	1.4	3.25	5.94	2.80	3.4	1.4	3.10	4.58	0.82	10.1	8.5	7.80	6.77	2.22			1.2	2.8	7.32	6.95	3.35		3.0	6.1	10.22	11.87	2.16		4.4	3.3	8.05	7.85	4.04																									
July	12.7	1.5	3.20	5.79	2.80	3.7	1.7	3.11	4.40	0.81	10.1	8.8	7.24	6.57	2.09			1.2	2.8	8.06	6.72	3.28		3.4	6.5	9.94	11.12	1.99		4.4	3.6	8.01	7.49	4.03																									

Monetary growth rates show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted rates except for Japan, Italy, Germany, monetary statistics now form a composite pan-German series. Monetary data supplied by Datastream and WEBA from central banks. Interest rates are short-term, period averages of the 10-year benchmark government bonds. Interest rates supplied by Datastream.

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US still cautious on Mideast peace hopes

By George Graham
in Washington

THE US remains outwardly cautious about the prospects for a preliminary self-rule agreement between Israel and the Palestinians, but US officials are more excited than they have been for some time about the chances of a breakthrough in the peace process.

As delegates gathered in Washington for the 11th round of Middle East talks, President Bill Clinton warned that apparent good news had often turned into disappointment. "We've still got a long way to go," he said.

Mr Clinton said he could not comment until progress was more concrete. He said: "I don't know if I would call it an intervention, but we have certainly worked hard to be a handmaiden, or whatever the appropriate term is. We are involved, but our position is not at issue here and should not be discussed until the parties themselves work out their differences."

State Department officials, however, said that a meeting in California on Friday between Mr Warren Christopher, the Secretary of State, and Mr Shimon Peres, the Israeli foreign minister, had made it clear that "the parties are focused on choices that could produce real progress".

Mr Christopher's aides are clearly elated at the possibility



Christopher: victory hopes

that their boss, who has been vilified in the US press over his handling of the Bosnia crisis as a passive and unprincipled administrator, might score a diplomatic victory.

Officials told the New York Times that it was Mr Christopher's trip to the Middle East at the beginning of this month that gave new momentum to the peace talks.

"They needed the US to stimulate things. They have all needed an awful lot of assurance and hand-holding from the US," the newspaper reported a US official as saying.

Mr Christopher's trip turned into an exercise in damage control, as he sought to negotiate an end to Israel's assault on southern Lebanon, and even his aides found little heart to defend his confident assertion that the fighting in Lebanon had in fact "given a new burst of energy to the negotiations".

US officials said that the crucial success of the trip was in persuading President Hafez al-Assad of Syria to advance talks with Israel on the future of the Golan Heights. They suggested that this might have encouraged Mr Yasser Arafat and the Palestinian Liberation Organisation to participate more actively in talks with Israel.

This explanation is not universally shared in Washington, however. "The main pressures on Arafat are financial. The people who have leaned on him are the Saudis and the Egyptians," said Dr Michael Hudson, professor of Arab studies at Georgetown University.

Dr Hudson warned that Israel's proposal to give the Palestinians limited self-rule in Jericho and the Gaza strip faced serious opposition among Palestinians in the occupied territories, and not just in the militant Hamas movement.

"Much depends on how the US interprets its role as a full partner in the peace process, and how far they are willing to go to make sure this is not the last stop on the road," he said.

Signs of progress expose Palestinian divisions

By David Horowitz
in Jerusalem and agencies

IT DID not take long to bring Palestinian rifts into the open, following the signs of progress yesterday in the peace process.

Conflicting signals emerged from the PLO itself - euphoria from Mr Bassam Abu Sharif and Mr Yasser Abed-Rabbo, aides to the chairman Mr Yasser Arafat, contrasting with pessimism from political department head Mr Farouk Khaddoumi.

Mr Ahmed Jibril's Popular Front for the Liberation of Palestine-General Command was more extreme and threatened to assassinate Mr Arafat. The PLO responded by saying the guerrilla group was out of touch with the needs of Palestinians.

The Hamas Islamic Resistance movement, which has its strongholds in Gaza, has said it will do everything to block a deal. The fundamentalist group, which opposes the US-brokered Middle East peace talks, is the main rival of the Palestine Liberation Organisation in the Israeli-held West Bank and Gaza strip, its main stronghold is believed to be in Gaza.

"This project opens the door wide to inter-Palestinian fighting and civil war because it does not fulfil their aspirations and liquidates their cause," Mr Mohammed Nazzari, the Hamas representative in Jordan said.

Mr Abdel Aziz Rantisi, the spokesman for the 400 deported Palestinian radicals stranded since last December in southern Lebanon, said in a telephone interview with the Associated Press yesterday that Moslems throughout the world rejected any deal recognising Israel. "This agreement will not prevent the Islamic generation, now or in the future, from fighting to restore its rights in Haifa, Acre, Lydda, Jaffa and Jerusalem," he said.

Mark Nicholson adds from Cairo: The Egyptian government, which has played an increasingly important role in brokering Arab-Israeli talks, yesterday welcomed the "Gaza-Jericho first" agreement as a move towards achieving Palestinian self-rule in the occupied territories. But it emphasised that this should be seen as a first step.

In the first reaction from any Arab government to the proposed deal, Mr Amr Moussa,

Egyptian foreign minister, said: "Any withdrawal from any part of the Arab land occupied [by Israel] since 1967 is a step forward". It is a step that does not meet all requirements on its own, but is a move towards achieving self-rule in all the Palestinian occupied territories.

He said a full solution should embrace the terms of the original Madrid formula for the peace talks, the full satisfaction of United Nations resolutions and an acceptance by Israel of the principle of "land for peace". "The Gaza-Jericho proposal is under careful study and if the Palestinians approve it, we will approve it too. The decision is a Palestinian one," the minister said.

Mr Arafat was due to arrive in Cairo last night for talks with Mr Moussa and is due to meet Mr Hosni Mubarak, the Egyptian president, this morning at the presidential palace in Alexandria. Mr Moussa, before yesterday's talks, put his government squarely behind the PLO leadership in the face of hardline Palestinian opposition to the proposal, praising Mr Arafat as "working hard to reach a comprehensive settlement".

Peres defends agreements before an astonished Knesset

'The world has changed completely'

By David Horowitz
in Jerusalem

"THIS is the beginning of the end of our 100-year dispute with the Palestinians. And you, yesterday's men, can't see five steps forward."

With these words, before a raucous Israeli Knesset yesterday, Israel's foreign minister, Mr Shimon Peres, hit back at his critics on the opposition benches, and defended agreements for granting Palestinian autonomy in the occupied territories. "The world has changed completely," shouted Mr Peres at members of the opposition Likud, "and only you haven't realised it."

News of the agreements between Mr Peres and the Palestine Liberation Organisation (PLO) stunned almost everyone. When Mr Peres first disclosed the agreements to his cabinet colleagues on Sunday morning, jaws dropped. Mr Elyakim Rubinstein, the man who has led Israel's negotiators through almost two years of unproductive dialogue with the Palestinians in Washington, was said to have been "flabbergasted" at what had been achieved behind his back, and threatened to resign.

No sooner had the first shock waves passed, than the opposition reacted furiously. Unimpressed by government assurances that not a single settlement would be moved

during the planned five-year autonomy period, settlers' leaders in the West Bank and Gaza Strip have vowed to fight an "escalating struggle" to prevent what they say will be the creation of an independent Palestinian state.

One settler rabbi, Eliezer Melamed, went further, warning of civil war if the autonomy plans go ahead. The first fruits of the public struggle were evident last night: a rowdy demonstration outside the prime minister's office.

Right-wing Knesset members have been united in their demands for new elections, claiming that the prime minister, Mr Yitzhak Rabin, has no mandate for making deals with the PLO. Mr Benjamin Netanyahu, the Likud leader, urged the government in yesterday's stormy Knesset debate to "go to the people. Tell them the truth."

Mr Peres's cabinet colleagues, by contrast, have been almost unanimous in their delight at the foreign minister's progress, many echoing his own talk of a "major breakthrough". Well aware that public opinion here remains sensitive to both the idea of territorial compromise and direct contacts with the PLO, several ministers - including Mr Rabin himself - have taken pains to stress that the agreements are not a harbinger of a PLO state and that Israel will



Israeli prime minister Yitzhak Rabin briefs coalition partners ahead of the cabinet vote on the "Gaza-Jericho first" proposal

not formally recognise the PLO unless it renounces terrorism and deletes various anti-Israeli sections of its charter.

Almost two decades of general elections have shown that public opinion is divided between those who regard Israeli control of the territories as crucial to its security and those who believe the state can

only prosper once the Palestinians are given self-rule. An instant survey, conducted overnight by the Yediot Ahronot tabloid, showed that this division persists, with 53 per cent of those polled saying they support the "Gaza and Jericho first" autonomy proposals, and 45 per cent against. See Editorial Comment

Details of draft accord

● Self-rule will begin first in the occupied Gaza Strip and West Bank town of Jericho, where Palestinians will have what Israel describes as full autonomy. They will take over most functions of the Israeli military government including internal security and policing.

● The principle of "early empowerment" will apply to the rest of the West Bank. Palestinians will take control of five spheres of daily life - health, education, welfare, tourism and culture - and perhaps others, depending on the outcome of negotiations.

● The Israeli army will redeploy to agreed areas, withdrawing from all Palestinian population centres but remaining to protect Jewish settlements on the outskirts of Gaza and Jericho.

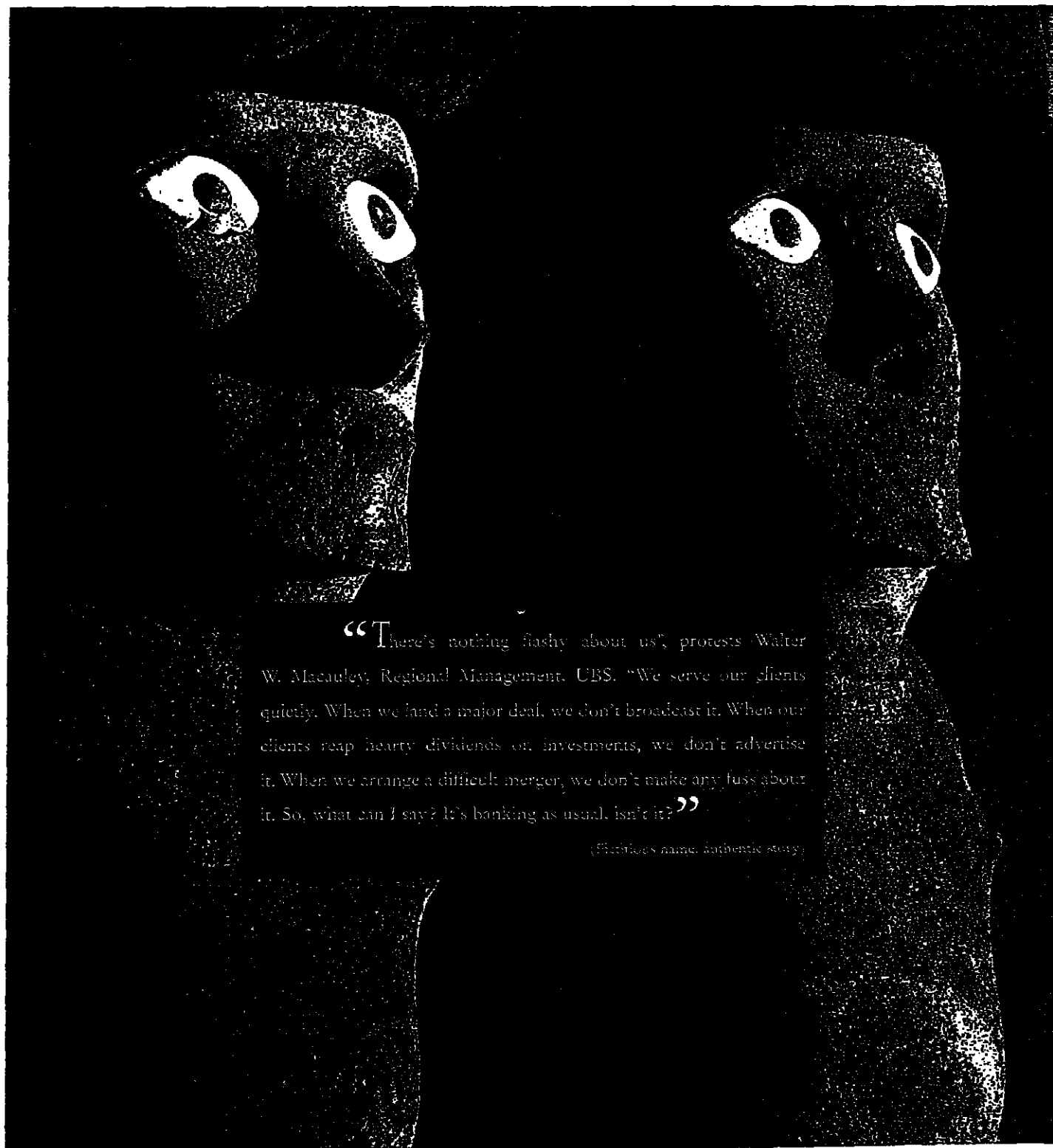
● Israel will keep control of the Gaza-Egypt border crossing and the Allenby bridge near Jericho, linking the occupied West Bank to Jordan.

● The status of Jerusalem, which thwarted earlier talks on self-rule, will be left to negotiations on the permanent arrangement for the occupied territories, which will begin two years after the signing of the joint declaration of principles.

● Expanded authority over Gaza and Jericho as well as early empowerment in the rest of the West Bank could be implemented within weeks of signing the document on the table at the 11th round of Middle East peace talks, starting today in Washington.

● Palestinians will elect a council to administer self-rule at least nine months after the declaration of principles is implemented.

● The seat of the administrative council will be in the West Bank town of Bethlehem.



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NEWS: UK

Timex faces court challenge on sackings

By Robert Taylor,
Labour Correspondent

TIMEX UK, an offshoot of Timex Electronics of the US, faces a legal challenge from its dismissed workers after announcing at the weekend the closure of its circuit-board production plant at Dundee in eastern Scotland.

Mr Jimmy Airlie, national officer for the Amalgamated Engineering and Electrical Union (AEEU) in Scotland, said yesterday that the union planned to take the company to court and seek redundancy payments and financial compensation for its dismissed workforce.

"It is an absolute scandal that a company can provoke a dispute to force its workers to accept vastly inferior pay and conditions or avoid the normal costs of a plant closure," he said.

"It is time something was done about situations like this. Timex provides us with a test

THE USE of secret strike ballots has been an important cause of the decline in industrial conflict in Britain over the past 10 years, says a survey of negotiators from 25 trade unions representing more than 5m workers. It was carried out by the Centre for Economic Performance at the London School of Economics. Unions have been obliged since 1984 to hold ballots before calling strikes.

case." The union intends to press the cases of the 343 Timex workers before industrial tribunals with claims of unfair dismissal. The existing pension rights of the Timex workforce were safeguarded, but none of those dismissed last February will receive any redundancy pay. The AEEU has been taking legal advice throughout the dispute.

Timex also went to court on numerous occasions to safeguard its legal rights in the

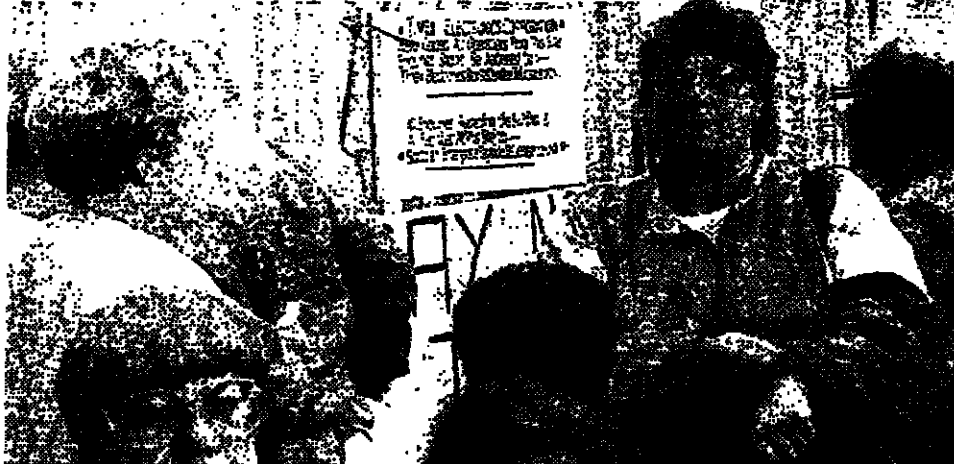
face of what it saw as intimidation and violence through mass picketing.

However, the union has won a number of judgments during the often fierce legal battles. Only last week, Timex was compelled to lodge £40,000 as security in advance of any compensation awards made by industrial tribunals.

In a statement on Sunday, Timex said it deeply regretted closing its production facilities in Dundee after 47 years. Local strike leaders vowed to continue their campaign against Timex by encouraging a global boycott of its products.

Timex's decision to hasten closure reflects the bitterness surrounding a dispute that produced some of the worst scenes of picket line violence in Britain for years.

The Timex workers were all dismissed on February 18 when they refused to support a management-imposed wage freeze. A substitute workforce was hired by Timex and bussed



Pickets outside the Timex plant in Scotland are greeted with notices announcing its closure

into the plant through picket lines.

Almost half the people in Britain who have jobs remain concerned about the prospect of becoming unemployed during the next 12 months, says

the latest monthly survey on redundancy commissioned for the Financial Times and Industrial Relations Services and conducted by MORI, the polling organisation.

The findings indicate wide-

spread scepticism about the strength of the economic upturn. Last month 47 per cent of the sample of 1,007 adults said they were very or fairly concerned at the risk of joining the unemployed.

Britain in brief



Major faces pressure from right wing

Three ministers are to speak at meetings organised by Conservative Way Forward, a Thatcherite group, during the Tory party's annual conference in October, intensifying pressure on Mr John Major, the prime minister, from the right wing of his party.

The group's magazine recently contained a vigorous attack on Mr Major's leadership from Lord Parkinson, a former cabinet minister who is now the group's chairman.

Mr Peter Lilley, the social security secretary, is the most senior of the three ministers who are to address the group. The others are Mr Michael Forsyth, a junior employment minister, and Mr Neil Hamilton, a junior minister at the trade and industry department with responsibility for deregulation. All will speak on matters within their own responsibilities.

Dobson, founder of the company that helped council tenants to buy their properties, and Mr Keith Woodward, its former finance director.

The two men were convicted of trading while the company was insolvent. Mr Dobson was also found guilty of two charges of procuring the execution of a security by deception, and Mr Woodward was convicted of furnishing false information.

The convictions came at the end of a four-month trial, but the jury was unable to reach a verdict on Mr Robinson on the charge of fraudulent trading.

Broader stance against crime

POLICE AUTHORITIES will be told to find ways of involving the public in the fight against crime Mr Michael Howard, home secretary, said. His comments came after a Gallup poll in *The Daily Telegraph* showed that three quarters of those questioned thought vigilance action was sometimes justified.

The poll also found widespread dissatisfaction with aspects of the handling of crime by the police and the criminal justice system. "We do not want vigilantes but we do want vigilance," Mr Howard said on BBC radio.

Small bomb is found in City

Terrorists breached the City of London's security ring and planted what police called a "small device" behind a hoarding in Wormwood Street. Police were alerted by a telephone call from a man with an Irish accent who used a recognised code word. The bomb squad carried out a controlled explosion on Saturday and there were no injuries.

The latest bomb attempt follows the creation last month of vehicle checkpoints around the City, and the blocking of many roads into it, in response to previous terrorist explosions.

Books lose out

The pleasure of reading is declining among UK schoolchildren except in Scotland, says a survey of 679 children and 576 grandparents commissioned by the Birds Eye frozen food company.

BRITISH ASSOCIATION FOR THE ADVANCEMENT OF SCIENCE

Progress in medicine 'threatened'

By Clive Cookson,
Science Editor

ANTI-SCIENCE feeling among the public, politicians and health policymakers is threatening the advance of medical sciences into "the most exciting and productive phase in their long history," Sir David Weatherall, Regius Professor of Medicine at Oxford University, warned last night.

He was making the presidential address to the annual meeting of the British Association for the Advancement of Science at Keele University in

the Midlands. "It would be a tragedy if this mood of disillusionment with the basic medical sciences, and science in general, were to impede progress as we move into the next millennium," he said.

Health policymakers were taking an increasingly short-term view of improving patient care, Sir David said. They were also turning their backs on research, as the recent UK government policy paper on the state health service showed. "Research is barely mentioned," Sir David commented.

"In the resulting marketplace economy of some of our teaching hospital trusts, it is already clear that - presumably because it poses a risk to competitiveness - research is going to be very low on the agenda," he continued.

He believed the health department's new research strategy was founded on a feeling that high-technology medicine was having a dehumanising effect and that much more effort should go into preventive medicine and the needs of individual patients.

"Because these changes are

occurring at a time when society is disillusioned with science, and when support for medical research is so limited, there is a genuine danger that the pendulum may swing too far and that, in our new customer-driven approach to medical research, the vital role of the basic medical sciences may be neglected."

Sir David said public disillusionment with medical science was due partly to a stream of over-optimistic claims about the speed with which research breakthroughs would benefit patients.

Optimism 'high' in small companies

By Daniel Green

SMALLER companies in Britain are more confident of economic recovery than their counterparts in the rest of Europe, a survey has found.

The survey by 3i, the investment capital group, and Cranfield School of Management found that while less Spanish and German companies now expect a decline in profitability over the next six months, French and Italian businesses have become more pessimistic since the last survey six months ago.

The different views are reflected in investment plans over the next six months. UK companies plan to spend more on training, marketing and research and development. The number reporting an increase in R&D has more than doubled. In France, budgets are falling in these areas and most companies expect to cut their training programmes.

Professor Paul Burn of the Cranfield School of Management said: "UK companies are

anticipating recovery and are doing things that will contribute to it."

But he warned against complacency, pointing to differences in expectations on prices. French companies expect falling prices and low wage increases while UK companies envisage price rises and Germany has the highest proportion of companies expecting wage rises.

A report today from National Westminster Bank says that growth in the north of the UK will match that in the south over the next few years, thanks to the manufacturing sector.

Mr David Kern, NatWest's chief economist, says: "Over the period 1994 to 1998, I expect growth to average 2.1 per cent [per year] in the northern and southern UK regions against 2.5 per cent in central Britain."

He expects manufacturing output to grow at an above-average 3.5 per cent and that northern and central Britain will have an above-average share of manufacturing.

Plants may clean contaminated land

By Nuala Moran

PLANTS which take up toxic metals as nutrients could be used to clean contaminated soils. The crop would then be harvested and metal extracted for recycling.

Professor Steven McGrath of the Agricultural and Food Research Council's Institute of

Arable Crops Research described the experimental process - called green remediation - to the British Association meeting.

His research team has tested a number of plants for zinc uptake on soils polluted by heavy metals from London sewage over 20 years. The most efficient plant, alpine penny-

cross, reduced zinc to acceptable levels after nine cropings. Prof McGrath said that if intensive cultivation was used, the same result could be achieved in three years.

Existing methods of physical and chemical treatment to remove soil pollution are expensive and also alter the soil structure, leaving it

unsuitable for cultivation. Using green remediation techniques, a hectare of contaminated soil could be cleaned up for £5,000, leaving it fertile, whereas conventional treatment costs £18,000 per hectare.

Prof McGrath suggests that plants could be genetically engineered to speed up the rate of remediation.

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FINANCIAL TIMES

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ECONOMICS

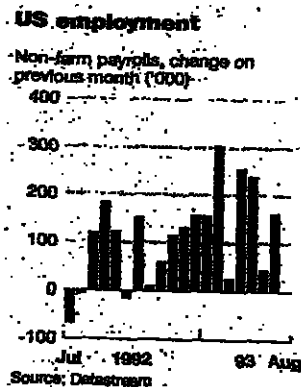
Markets seek evidence of US recovery

A RUSH of statistical and survey data this week should enable economists and investors to reassess the state of the US recovery and establish whether the Wall Street's recent strength is anchored in fundamentals.

Markets will be on tenterhooks for Friday's key employment data for August although economists warn that the important non-farm payrolls figure may be inflated by temporary summer hiring. Tomorrow's National Association of Purchasing Managers' survey is expected to point to only moderate output growth as manufacturers approach the autumn, while a slight softening is forecast in today's consumer confidence index.

In Europe, attention will focus on France's unemployment report and whether the expected poor output will prompt the government of Mr. Edouard Balladur to exploit the increased room for manoeuvre in the European Monetary System and ease French monetary conditions.

A quiet week is expected in the UK with one bullish indicator, the M3 narrow money figure on Friday are expected to keep growing faster than the government's 0 to 4 per cent monitoring range.



The main economic statistics and events of the week follow. The figures in brackets are the median of economists' forecasts from MMS International, the financial information company.

Today: US, Preliminary 2nd quarter GDP (up 1.2 per cent), GDP deflator (2.6 per cent), after tax corporate profits; August consumer confidence (57.3), Chicago NAPM, farm prices.

Japan: economic ministers meeting; July housing starts (up 1.8 per cent on year), construction orders, construction starts, industrial production (down 0.1 per cent), shipments; mid-August wholesale prices.

Canada: June real GDP at factor cost (up 0.1 per cent on month); 2nd quarter real GDP (up 2.5 per cent on quarter at seasonally adjusted annual rate), consumption (up 1.5 per cent on quarter, SAAR), GDP deflator (up 1.1 per cent on quarter, SAAR), current account (C\$25.4bn deficit, SAAR).

Switzerland: GATT Uruguay Round negotiators meet in Geneva.

Finland: July unemployment rate (18.7 per cent).

Wednesday: US, July personal income (up 0.3 per cent), personal consumption expenditure (up 0.3 per cent), construction spending (up 0.2 per cent); August NAPM index (50.0).

UK: purchasing managers' index from Chartered Institute of Purchasing and Supply (63 per cent); Halifax July house price index; June overseas travel and tourism; July advance energy statistics.

Thursday: US, July factory orders (down 1.8 per cent), inventories; initial claims week ended August 28 (383,000); state benefits week to August 21; money supply week ended August 23 (M2 up \$2.8bn).

UK: August official reserves (up \$100m); cyclical indicators.

Australia: July retail trade (up 0.4 per cent).

Friday: US, August non farm payrolls (up 150,000), manufacturing payrolls (down 10,000), hourly earnings (up 0.2 per cent), unemployment rate (6.9 per cent), average workweek; July leading indicators (down 0.1 per cent); August 21 - 31 auto sales (8.8m), truck sales.

Germany: August seasonally adjusted unemployment (west) up 35,000, vacancies (west) down 3,000; July employment (down 50,000).

UK: August M3 (up 0.4 per cent on month, 5.4 per cent on year); July final money supply; family spending survey 1992.

Canada: August foreign exchange reserves (down \$1.7bn).

Rest of the Week: Japan, July current account and trade balance.

Germany: July industrial production (down 0.2 per cent on month), manufacturing output (flat); GfK July consumer climate.

France: July unemployment rate (11.7 per cent); May trade balance (Fr5.5bn surplus).

Italy: June wholesale prices (up 5.1 per cent on year), producer prices (up 4 per cent); August consumer prices (up 4.6 per cent).

Peter Norman

UK COMPANIES

TODAY

COMPANY MEETINGS: Latham (Hawes), Leaside Wharf, Clapton, E, 12.30.

Marling Inds., The Chartered Accountants' Hall, Moorgate Place, E.C., 10.00.

BOARD MEETINGS:

Final:

Unit Square

Interim:

Admiral

Crane Europe

Ferry Pickering

HSBC

Healy

Marshall

Owen & Robinson

Rhino

Robinson Bros.

Severfield-Hewes

Simon Eng.

TOMORROW

COMPANY MEETINGS:

Clayton, Naval & Military Club, 94 Piccadilly, W., 12.00.

Debenhams, The Grosvenor, Grosvenor Hotel, 1, Hamilton Place, Hyde Park Corner, W., 11.00.

Ludgers, 24 Southwark Bridge Office Village, Thrale Street, S.E., 10.30.

Ever Group, Minster House, Plough Lane, S.W., 10.30.

Starling Publishing, 15 Portland Place, W., 10.00.

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MANAGEMENT: THE GROWING BUSINESS

In a Nutshell

Focusing on UK ethnic communities

The bulk of small business research work in the UK has been focused on Asians and West Indians.

However, besides Bangladeshis and Afro-Caribbeans, a new study on ethnic enterprise and the high street bank includes interviews with Greek-Cypriots.

The authors of the report* - James Curran and Robert Blackburn of Kingston University - point out that Greek-Cypriots are the longest established of the UK minorities and have the most diverse pattern of ownership.

Their businesses are the largest, and the most likely to have broken out of the ethnic market. The report is generally sceptical about the importance of ethnic communities as alternative sources of finance.

It says that the Greek-Cypriots are the most frequent users of bank advice, have expanded their businesses more than the other two minorities, and are likely to perform similarly to white-owned firms.

*Available from Small Business Research Centre, Kingston University, Kingston Hill, Surrey, KT2 7LB. Price £40 inc p&p.

Shopkeepers fall victim to crime

The risks for small shopkeepers from violent crime in some parts of Britain have been highlighted by researchers at the University of Sheffield.

A total of 92 shopkeepers in one part of London and 70 shopkeepers in part of a large Midlands city were interviewed, among them newsagents, off-licences, grocery stores and small supermarkets.

In the London area a quarter of respondents had been the victim of a robbery or attempted robbery (with a knife or gun/imitation gun) in the past 12 months.

In the Midlands area, the figure was 17 per cent.

Some 24 per cent of London shopkeepers and 34 per cent of Midlands shopkeepers had

suffered acts of deliberate vandalism to the shop or its property.

Cautious times for entrepreneurs

Owner-managed businesses appear to be optimistic about their future, but would-be entrepreneurs appear to be more cautious.

That is the impression given in this month's Touche Ross survey of owner-managed businesses and National Westminster Bank's latest quarterly start-up index.

According to Touche Ross, 74 per cent of respondents are anticipating a positive growth in turnover over the next 12 months.

This confidence is backed up by improved sales and order levels in the last quarter at more than half the 197 businesses polled.

Most promisingly 48 per cent are anticipating increasing staff over the next year, compared with 9 per cent expecting to reduce them and the remainder expecting no change.

NatWest's figures, meanwhile, show that the number of small business start-ups in the second quarter of 1993 - around 90,000 - showed a slight dip on the 95,000 estimated for the first quarter.

However, the six-month total of 185,000 was the same as that for the second half of 1992.

"New, small-business owners are thinking very carefully about the commitments they are prepared to take on, especially when other people's livelihoods are at risk as well as their own", according to Jane Bradford, who is head of small business services at NatWest.

"On average they spend nearly eight months planning their business venture before they actually start up".

A helping hand for overseas traders

North Yorkshire Training and Enterprise Council (TEC) has just launched a pilot scheme to help 20 small and medium-sized businesses increase their exports. The first stage is a half-day's free consultancy to produce an export action plan.

The second part is a heavily subsidised place on a trade mission to selected European countries to make contacts and accompanied visits to selected international trade fairs.

Many companies using personal details of individuals are breaking the law by failing to register their activities with the Data Protection Registrar, reports Michael Cassell

Don't fall foul of computer data

It may be the last message that the thousands of small UK businesses struggling to survive want to hear. But there is an excellent chance they are committing a criminal offence each time they switch on their computer terminals.

The reason is they are ignoring, or are not even aware of, their obligations under the Data Protection Act 1984.

The legislation was the first in the UK to address the use or potential misuse of computers. Nine years on, enormous confusion and uncertainty surrounds its workings.

Under the act, which does not cover information held and processed manually, organisations using data about people are required to register details of their activities and to adhere to a code of good practice.

The same applies to computer agencies which might handle the data for them.

Any organisation which fails to register - it costs £75 for three years - or does so and then breaks the code can face fines of up to £5,000 in a magistrates court. Unlimited fines apply in higher

protection is made more difficult because who is and who is not covered by the legislation often remains unclear.

Even Eric Howe, the Data Protection Registrar, acknowledges he has found no satisfactory or reliable way of establishing exactly the number of data users who should be on his books.

Howe, who is an independent officer reporting directly to parliament, says he recognises the complexities involved in interpreting the act and in analysing the diversity of situations in which it can apply. He has only 100 staff and limited finances to enforce the legislation throughout the UK.

Small wonder then that the most unsuspecting candidates have fallen foul of the law.

In one recent case, a local newspaper's shop found itself on the receiving end of an official visit, following a formal complaint from a local customer that a computer screen on full display was broadcasting the names and addresses of some of its customers, many of whom were elderly and vulnerable.

Who is and who is not covered by the legislation often remains unclear. Even Eric Howe, the Data Protection Registrar, acknowledges he has found no satisfactory or reliable way of establishing the number of data users who should be on his books

courts. More than 100 companies and individuals have so far been prosecuted.

Under the legislation, private individuals have the right of access to information held about them and can demand compensation for any damage or distress arising from the storage of inaccurate data or from unauthorised disclosure of the information.

The potential for financial penalties arising from non-compliance, is therefore immense. The enforcement of data

The business was told to register under the act; the computer was immediately moved out of sight.

In another example, a ticket agency was fined £250 with costs after a customer who had purchased cinema tickets then received unsolicited mail from a third party.

The agency had sold on customers' personal information.

A recent report from the National Audit Office, the public spending watchdog, said that as many as 100,000 data users who should be registered under the act have not done so.

The NAO believes that the total may be considerably higher.

A further problem is that organisations are failing to re-register after the initial three years.

The registrar has consequently concentrated resources on this area. In doing so, however, and because of limited resources, other areas have failed to be adequately monitored, resulting in the growing number of qualifying companies which have yet to make a first registration.

Howe believes that one-third of all small companies are unaware of their statutory obligation to register and more than two-thirds of all small businesses are believed to have no idea about the obligations which are imposed upon them as a result of the legislation.

There is clear need for government departments and other public bodies to maintain the confidentiality of personal information on their files. The same arguably goes for the police, local authorities, educational centres and professional organisations. Less obvious perhaps is the requirement for smaller businesses - from travel agents, employment bureaux and ticket agencies - to register.

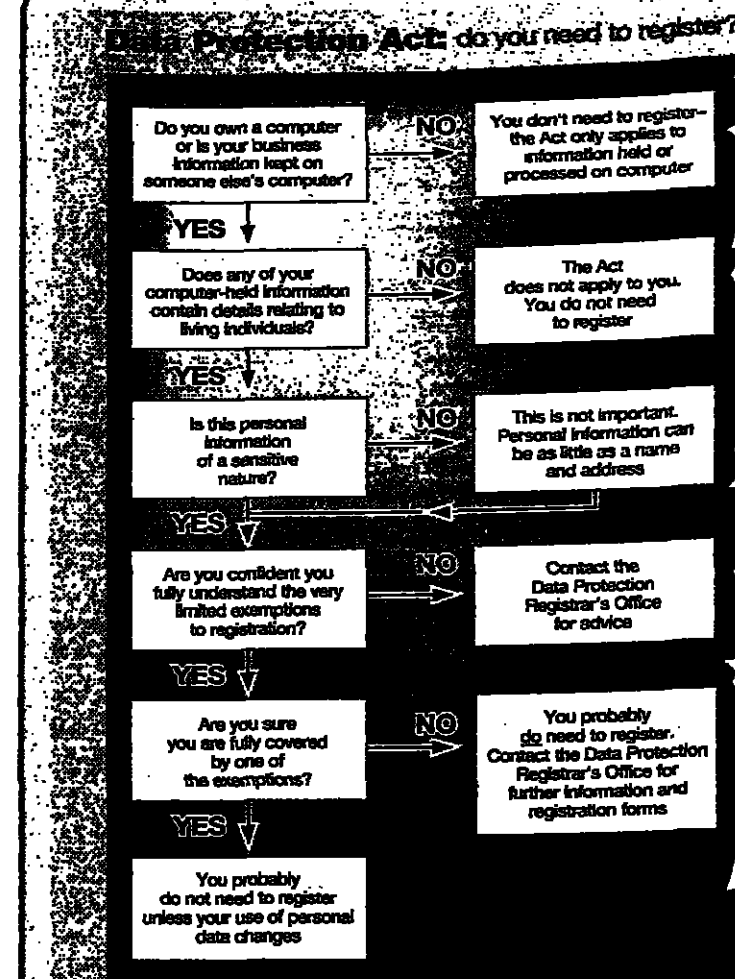
According to the registrar's office, the general guideline is that "anyone holding information about living individuals on computer is a data user and therefore needs to register."

"The information in question need not be particularly sensitive and it can be as little as a name and address".

Howe says: "The act as it stands makes no particular allowance for small businesses. It requires every organisation to register and comply in exactly the same way, regardless of size or type of business."

In an attempt to improve on the general lack of awareness of registration requirements among small companies, a new information pack and free video designed to explain the act has just been produced.

There are exemptions for some types of data handlers but they are



very narrow and subject to strict conditions.

Registration may not be necessary if, for example, the information is used only for calculating wages and pensions or for keeping accounts. Sports or recreational clubs which do not have limited company status are also exempt.

The best advice for small organisations unsure as to whether they qualify or not is to register anyway.

Once businesses are on the registrar's books, the code of good

practice demands that they adhere to a list of guiding principles.

The guidance includes obtaining and processing information "fairly and lawfully", keeping it safe and up-to-date and not holding it any longer than is necessary.

An information pack tailored for the small business is available from the registrar's office at Wylliffe House, Water Lane, Wilmston, SK9 6AF.

Individual advice can also be obtained from Richard Ansell, the small business officer at the same address.

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re
TOWERS FINANCIAL CORPORATION,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION II,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION III,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION IV,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION V,
TOWERS LEASING CORPORATION,
TOWERS COLLECTION SERVICE, INC.,
TOWERS CREDIT CORPORATION,
TOWERS DIVERSIFIED CORPORATION,
TOWERS ORGANIZATION, INC., and
TFC FUNDING CORPORATION,
Debtors.

NOTICE OF LAST DATE FOR THE FILING OF PROOFS OF CLAIM AND PROOFS OF INTEREST
TO: CREDITORS AND EQUITY HOLDERS AND TO ANY PERSON, ENTITY OR GOVERNMENTAL UNIT THAT ASSERTS A CLAIM AGAINST OR INTEREST IN THE ABOVE-CAPTIONED DEBTORS.
The United States Bankruptcy Court for the Southern District of New York has entered an order dated August 11, 1993 (the "Last Date Order"), directing that all claims of debtors against the Debtors must be filed with the Court by the Last Date. The Last Date is set for September 15, 1993 at 5:00 P.M. Eastern Standard Time. Any claim or interest not filed by the Last Date will be barred from participation in the Debtors' reorganization plan. The Last Date Order also directs that all proofs of claim and proofs of interest must be filed with the Court by the Last Date. The Last Date is set for September 15, 1993 at 5:00 P.M. Eastern Standard Time. Any proof of claim or proof of interest not filed by the Last Date will be barred from participation in the Debtors' reorganization plan. The Last Date Order also directs that all proofs of claim and proofs of interest must be filed with the Court by the Last Date. The Last Date is set for September 15, 1993 at 5:00 P.M. Eastern Standard Time. Any proof of claim or proof of interest not filed by the Last Date will be barred from participation in the Debtors' reorganization plan.

PLEASE TAKE FURTHER NOTICE that any claim or interest of a creditor or equity holder in the Debtors must be filed with the Court by the Last Date. The Last Date is set for September 15, 1993 at 5:00 P.M. Eastern Standard Time. Any claim or interest not filed by the Last Date will be barred from participation in the Debtors' reorganization plan. The Last Date Order also directs that all proofs of claim and proofs of interest must be filed with the Court by the Last Date. The Last Date is set for September 15, 1993 at 5:00 P.M. Eastern Standard Time. Any proof of claim or proof of interest not filed by the Last Date will be barred from participation in the Debtors' reorganization plan. The Last Date Order also directs that all proofs of claim and proofs of interest must be filed with the Court by the Last Date. The Last Date is set for September 15, 1993 at 5:00 P.M. Eastern Standard Time. Any proof of claim or proof of interest not filed by the Last Date will be barred from participation in the Debtors' reorganization plan.

OR ON OR BEFORE 5:00 P.M. EASTERN STANDARD TIME ON SEPTEMBER 15, 1993 BY HAND DELIVERY TO THE CLERK OF THE COURT, UNITED STATES BANKRUPTCY COURT, SOUTHERN DISTRICT OF NEW YORK, 100 WALL STREET, NEW YORK, NEW YORK 10038. ANY CLAIM OR INTEREST NOT FILED BY THE LAST DATE WILL BE BARRED FROM PARTICIPATION IN THE DEBTORS' REORGANIZATION PLAN. THE LAST DATE IS SET FOR SEPTEMBER 15, 1993 AT 5:00 P.M. EASTERN STANDARD TIME. ANY CLAIM OR INTEREST NOT FILED BY THE LAST DATE WILL BE BARRED FROM PARTICIPATION IN THE DEBTORS' REORGANIZATION PLAN.

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Businesses for Sale
The Minister of Privatisation acting on behalf of the State Treasury in accordance with the Privatisation Law (Article 23, 13 July 1990) invites interested parties to submit expression of interest for the acquisition of minimum 10% of shares in

ZPC SAN S.A.
BISCUIT MANUFACTURER
The company is located in Jaroslavl in the south-eastern part of Poland and manufactures biscuits. The company employs 1100 people and had sales of 304 bln Pln in 1992.
In accordance with the Privatisation Law (Article 24) up to 20% of shares will be offered to the company's employees on preferential terms.
This invitation is directed to strategic investors interested in a majority stake.
Submission of expression of interest should be by fax within two weeks of the date of publication of this advertisement. After signing a Letter of Confidentiality the potential investor will have the right to visit the company. Within ten weeks from the date of publication of this advertisement, potential investors will be invited to submit a written proposal. Within three weeks thereafter they should present their indicative offer.
The Minister of Privatisation reserves the right to cancel this invitation and not to take up negotiations without giving reasons. Please submit your written proposals by fax to:
Andrzej Mieszczycki
Director, Privatisation Services
Central Europe Trust
Fax: (48-22) 21 75 73

MINISTRY OF PRIVATISATION
REPUBLIC OF POLAND

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The Minister of Privatisation reserves the right to cancel this invitation and not to take up negotiations without giving reasons. Please submit your written proposals by fax to:
Andrzej Mieszczycki
Director, Privatisation Services
Central Europe Trust
Fax: (48-22) 21 75 73

MINISTRY OF PRIVATISATION
REPUBLIC OF POLAND

The Minister of Privatisation acting on behalf of the State Treasury in accordance with the Privatisation Law (Article 23, 13 July 1990) invites interested parties to submit expression of interest for the acquisition of minimum 10% of shares in

ZPC SAN S.A.
BISCUIT MANUFACTURER
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- Forward order book of approximately £180,000.
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- Turnover approximately £900,000.
- Fully fitted uPVC double glazing manufacturing plant.

For further information, please contact in the first instance Christopher Gray on 0623 651626 or alternatively Angus Martin at the address below.

10-12 East Parade, Leeds LS1 2AJ.
Tel: 0532 439021. Fax: 0532 448942.
Authorised by the Institute of Chartered Secretaries in England and Wales to carry on Investment Business.

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The Joint Administrative Receivers, G. J. Watts and N. J. Dargan, offer for sale the business and assets of the above Group.

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The Group has the capability to undertake design, supervision and

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The main features are:

- Group turnover approximately £13 million.
- Substantial contracts.
- Very experienced and technical workforce.
- Modern long leasehold office and workshop accommodation occupying 43,000 sq. ft.
- Ample car parking.

For further information please contact Graham Watts or John Cowburn at the address below.

Abbey House, 74 Moseley Street, Manchester M60 2NT.
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Heathrow Express project

Airport operator BAA is to use the New Engineering Contract (NEC) for the main tunnel for the £300m Heathrow Express scheme. This is believed to represent the biggest UK civil engineering project to adopt the new form of contract.

The New Engineering Contract (NEC) is a standard form of contract suitable for use in the design and construction (including erection) of new works involving any, or all, of the building disciplines.

BAA is a leading proponent of the NEC having already used this form of contract on a number of successfully completed projects at Heathrow and Southampton airports.

The contract for a new terminal and car park at Southampton will be the first UK building contract to use the NEC.

Explaining the benefits of the new form of contract, BAA's project director, David H. Williams said "We see the radical and less adversarial approach which is required to administer this contract as improving the pre-planning productivity and project performance generally."

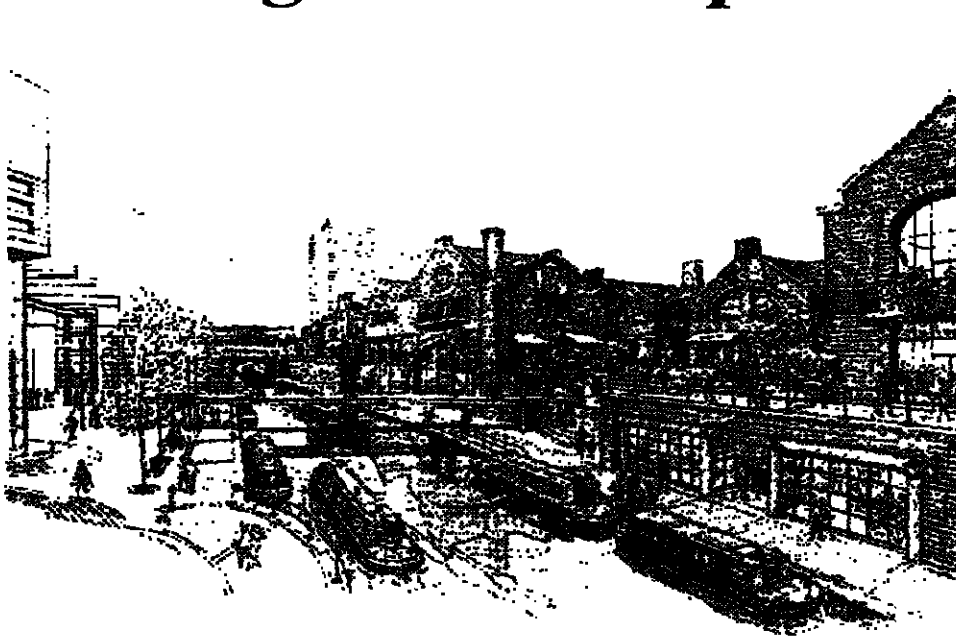
The use of the NEC is one of a number of initiatives currently being embraced by BAA as part of a continuous improvement process for its £300m a year capital investment programme.

Swindon centre

GARDINER & THEOBALD has been appointed by Thamesdown Borough Council to act as quantity surveyor for the pre-contract stages of the £30m refurbishment of the Brunel Centre in Swindon.

The project includes the refurbishment of the Brunel Arcade with provision for a new 130,000 sq ft store and a 1,100 space car park.

Birmingham retail plan



An artist's impression of the proposed "The Water's Edge" development at Brindleyplace

The West Midlands' construction industry has received a boost with the appointment by Brindleyplace of Birmingham-based builders, TILBURY DOUGLAS CONSTRUCTION. Tilbury Douglas has been awarded the contract for 'The Water's Edge', the first phase of Birmingham's £250m showpiece development, Brindley-

place. Work on the £1m design and build contract is due to start on September 6 and will include the shell and core construction of 'The Water's Edge', the first phase of retail and catering facilities on the 15 acre site.

The Water's Edge is a 60,000 sq ft canal-side development of restaurants, shops, bars and

cafes which will be linked to the canal-side entrance of the International Convention Centre by a new pedestrian steel suspension bridge which is part of the contract.

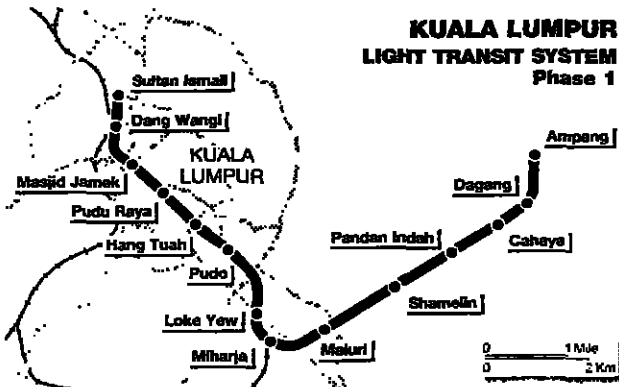
A civic square will be created at the heart of Brindleyplace. The initial layout will be set out in time to open to the public next summer.

Malaysian transport scheme

SISTEM TRANSIT ALIRAN RINGAN (STAR), has raised £300m of funding for work on Phase One of the project to develop a light rail transit system (LRT) for the Malaysian capital, Kuala Lumpur.

Over 18 months ago, the Anglo-German consortium of Taylor Woodrow International and AEG Westinghouse Transport Systeme GmbH formed STAR to raise private investment capital for the first phase of the LRT project. Having secured capital, STAR would then own and operate the system under a franchise agreement with the Malaysian government.

STAR now has in place the required funds to begin work on the project. Over 60 per cent is sourced from commercial bank loans, around 10 per cent from a government support loan and the balance in the



form of equity from Malaysian and foreign investors.

This project represents the first phase of an integrated light rail network for Kuala Lumpur and surrounding areas.

Taylor Woodrow International and AEG Westinghouse

Transport Systeme GmbH, together form the Kuala Lumpur Transit Group Sdn Bhd (KLTC), which has entered into a £225m contract with STAR to undertake the design, construction, delivery, installation and testing of the LRT system.

Developing superstores in Essex

COUNTRYSIDE PROPERTIES has been awarded two contracts by Tesco Stores for the design and construction of two new food superstores in Harlow, Essex.

A superstore in Edinburg Way will provide 60,500 sq ft of retail accommodation together with parking for 550 cars and a petrol filling station. The new store is programmed to open in February 1994.

The second superstore forms the basis of a community neighbourhood centre at Church Langley near Harlow and construction started on August 4. On completion in June 1994, the 49,000 sq ft superstore will be the largest unit in the centre, providing parking for 465 cars as well as a petrol filling station and four other retail units.

Production plan

Bristol currently boasts several important construction contracts which will shortly be starting on site. PEARCE CONSTRUCTION is playing its part with the start of a design and build contract for the new £30m international production centre for DRG Medical Packaging.

The investment by the Bowater company is being project managed by Gleds Management Services.

Cold storage

CONDER PROJECTS, a member of the Miller Group, has been awarded new orders to the value of over £10m.

The main contract award, valued at over £7.7m, involves designing and building a cold store and distribution centre at Tilbury Docks for Van Bon Cold Stores (UK), a food importer and distributor based in Holland. Project management is being undertaken by CAER URFA Consultancy.

The building at Tilbury Docks, covering a floor area of almost 32,000 sq metres, will include plant rooms, offices and associated facilities. Chill storage will be handled on three levels, with temperature control from 15°C to 0°C, together with humidity control. The cold stores will have drive-in racking to all five chambers.

Reeves' rehabilitation complete

Christopher Reeves, who was chief executive of Morgan Grenfell at the time of the Guinness affair, has seemingly been fully rehabilitated by the City now that he has been promoted to chairman of Merrill Lynch Europe/Middle East.

Nearly two years after resigning from Morgan Grenfell in 1987, he had joined the US investment banking group as senior adviser to Jerry Kenney, then president of Merrill Lynch Capital Markets; Reeves later moved on to become vice chairman of Merrill Lynch International.

When he first joined, Merrill denied that the Bank of England had blocked his appointment as chief executive of the European operations on account of his connections with the Guinness affair, but at the end of last week a spokesman indicated that "certain restrictions" on his activities previously in place had now been lifted, and that approval for the current



appointment had been secured from both the Securities and Futures Authority and the Bank of England.

Noone has held the title of chairman of Merrill Lynch Europe since Stanislav Yassukovich left two and a half years ago, although Mike Giles, chairman of Merrill Lynch International Bank had taken effective responsibility.

Reeves says that his new title means that he will be "much more executive rather than advisory" and will be allowed "to do more things", notably chairing the executive committee in charge of the region, a position that Giles had also previously held.

He adds that Merrill is "so much bigger and more active than it is in this role". It has expanded its capital raising activities generally, has applied to become a market-maker in gilts and is growing on the Continent, particularly in France and Germany.

Reeves says he himself has developed a special interest in India which, despite his job title, is in fact "on the extremity" of his region, and he sits on the board of the India Fund and the India Growth Fund.

Asked if he was now receiving the million pound salary that reports suggested he had had to turn down in 1988, he commented: "Sadly not."

Finance moves

Glenn Wellman, formerly an md and chief investment officer at Alliance Capital, has been appointed a director and head of global equity management at CSFB INVESTMENT MANAGEMENT.

Massimo Ferazzo, formerly director general, corporate finance at Paus Securities SIM in Milan, has been appointed a director in the corporate finance department of SWISS BANK CORPORATION.

Jeanie Gunn, formerly finance director of Griffin Factors, part of Midland Bank,

has been appointed group strategic planning director of NOBLE LOWNDEN.

Brian Phillips (below left), formerly a director of Invesco Ventures, and Donald MacLennan (below right), formerly an investment director with 3i, have been appointed directors of CARTMORE VENTURE CAPITAL.



Valerie Lane, formerly a senior vice-president at Kleinwort Benson, has been appointed md of head of US private placements and structured distribution at BZW in New York.

Greg McNulty has been appointed a director of Fox-Pitt, Kelton.

David Mee has been appointed director and senior legal adviser at NOMURA INTERNATIONAL; he moves from Allen & Overy.

David Schofield has been appointed director, head of fixed income sales into Germany and France, at UBS; he moves from Lehman Brothers.

Collinson to regenerate Plymouth

The Plymouth Urban Development Corporation in Devon, set up by the government five months ago to regenerate unwanted Ministry of Defence sites including the Royal William naval yard, will begin to pick up steam tomorrow with the arrival of a chief executive, John Collinson.

The corporation, the 12th UDC in England, came into being on April 1 with a projected budget of £45m over its intended five-year lifespan.

Collinson, recruited after the advertised post attracted over

200 applications, has been working out his notice as property director of the Black Country Development Corporation, where he has been for five years.

Collinson, who is 43, spent five years before that with Salford city council, but in his new post he will be returning to his home county. He was born in Exeter.

His first priority in Plymouth will be the UDC's business plan which is due to go to the Department of Environment within a month of his

arrival. The next priority, he says, is "hands on deck" in terms of staff. One necessary appointment, that of finance and administration director, is expected to be made shortly.

Already on deck is Vice-Admiral Sir Robert Cerkon as chairman and board members include the leaders of Plymouth city council and Devon county council. The UDC covers 165 acres and it is envisaged that there will be mixed development including offices, shops, restaurants and housing.

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London, 27 September

Discussions will cover the practical issues in introducing the new British accounting standards and the effects of those likely to be launched during the next few months.

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All enquiries should be addressed to: Financial Times Conference Organisation, 102-108 Clerkenwell Road, London EC1M 5SA. Tel: 071-914 9770 (24-hr answering service) Telex: 27347 FTCONF G, Fax: 071-873 3975/3989.

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Art at Edinburgh/Bill Packer

Exhibitions away from the festival



Head, by Kazimir Malevich, in the Russian Avant-Garde exhibition at the Scottish National Gallery of Modern Art

For all that the festival proper would rather have nothing to do with such things, Edinburgh is currently full of worthwhile exhibitions, with the National Galleries of Scotland offering a substantial quiver. The Queen's Holbeins at the National Gallery apart, the most important is the show of early-modern Russian painting put together by the Musée des Beaux Arts de Nantes, which has come to the Museum of Modern Art for its sole British showing.

Its subject is the heroic period of Russian modernism from the turn of the century to the first years of the Communist state. The subject has been thoroughly investigated since the spirit of *glasnost* threw open Russian collections locked away these 60 years. Even so, drawn as it is for the most part from regional museums from Samara to Novgorod, this remarkable show brings us many works for the first time, fresh and fascinating.

Not that it breaks new ground exactly: the expected names are here and no new reputations are made, no accepted critical analysis overturned. It is but an open celebration of the work as it is, in all its variety, and a poignant memorial to an historic moment and opportunity lost. For here was a national school of such vigour and originality that, had it remained within the mainstream of modernist development, might have profoundly moderated its course. Would the assumed authority of the Paris school have remained so persuasive for so long? Would the habit, now ingrained, of assuming there to be at any moment a single significant centre of activity, have taken such a hold? The questions hang in the air.

As it was the Russians had influence enough, on the course of abstraction and constructivism especially, through such as Kandinsky and Malevich, and such work as remained in the west. The greater loss was to expressionism, which in its Russian manifestation - alive to developments elsewhere, in Germany especially, in the years before 1914 - brought to it a zest and geniality, wonderfully angst-free, derived from its alternative sources in the profound folk tradition.

Goncharova, Popova, Rozanova, Stepanova - how important the women are - Falk, Filanov, Kravchenko, Larianov, Shevchenko, and Chagall, Malevich, Kandinsky and so many more besides: Cubist still-lives, suprematist abstraction, streets in the snow, country villages, men talking, women working - it is a lovely show.

The National Galleries have also taken over the Royal Scottish Academy, filling its ample spaces with an ambitious historical survey of drawings, water-colours and prints by Scottish artists from 1700 to 1900. It is a dense and constantly intriguing show that holds many beautiful and remarkable things, yet it has to be

said that it over-reaches itself. Set up under such a heading as *The Line of Tradition* it invites an expectation of continuity and thematic consistency that in the event is simply not sustained.

The landscape, the portrait and the figure, the colourist instinct, objectivity, romanticism - any one of these would have supplied a proper theme for a smaller, more concentrated and particular show. I am all for a miscel-

lany, openly acknowledged, but even that would have been better for a shorter historical span. In this respect this show simply tails off into a token presentation of a few currently fashionable names allowed a

disproportionate amount of space. None of this should put off the visitor prepared to immerse himself in the material and indulge his own interests and enjoyments. Scottish painting and graphic art from the 1800s well into the 1900s was especially strong and too readily disregarded by the world at large. There are many fine examples here - James Cowie's studies of his students, William Gillies' landscapes, James MacBey's first world war etchings, Walton's Black Bull beneath its tree. The large and so deceptively free water-colours of Arthur Melville alone are worth the visit.

Much the same ground is covered by the Scottish Gallery in its truly miscellaneous survey of work by artists associated, as teachers or students, with the Edinburgh College of Art, since its foundation in 1909. In recent years especially the college has been a bastion of the painterly and graphic disciplines too lightly abandoned in the name of creative liberality south of the border some 30 years ago. With such mentors to hand as Gillies, Anne Redpath, Robin Philipson, John Houston, David Michie and Elizabeth Blackadder, it has remained a policy of creative conservatism beyond price.

Back at the Academy, the RSA itself has given over its basement gallery to the Imperial War Museum, to put up a small display of works commissioned lately from contemporary artists. The point it makes is important but could all too easily go by default. War remains a legitimate subject for the artist, whether we are engaged in any formal war or not. Without engaging in the artist's own particular polemic or moral debate, the museum is surely right to monitor the currency of such response on our behalf.

Finally I have room only to recommend Phoebe Anna Traquair - Scottish decorative artist within the arts & crafts movement and Celtic revival at the turn of the century - at the Scottish National Portrait Gallery until November 7, (sponsored by Bailie Gifford & Co., General Accident, and Mobil).

Russian Painting of the Avant-garde 1906-1924: Scottish National Gallery of Modern Art, Belford Rd, until September 5, sponsored by Scottish Power and the Foundation for Sport and the Arts.

The Line of Tradition: Royal Scottish Academy, The Mound, until September 12, sponsored by Dawson International, BSIS, Lothian & Edinburgh Enterprise, and the Esme Fairburn and Hope Scott Trusts.

The Edinburgh School: The Scottish Gallery, 16 Dundas Street, until September 8.

No More Heroes Anymore: Royal Scottish Academy, until September 12.

Vale of Glamorgan festival

The Proms and Edinburgh may overshadow August, but there are some idyllic outlying festivals. You could do worse than sample the charms of Presteigne, a small town astride the picturesque mid-Wales border, where a modest, friendly bank holiday chamber music event has taken off during the last few years. But for the charged atmosphere of live contemporary music-making, make for coastal St Donat's.

This summer's Vale of Glamorgan festival is a minimalist's paradise. David Williams, the festival chairman, who, with another hat on, helped sway a healthy £25,000 grant from the Welsh Arts Council, explains: "We felt we should do something constructive, not just for new music in broader terms, but for living composers. It seemed more positive to concentrate resources rather than dissipate them, and promote a worthwhile series focusing on the diversity of contemporary works in particular, post-modernist music since the 70s."

The principal sponsors, Allied Steel and Wire (ASW), have proved an added lifeline, injecting several thousands and, no less important, setting up gatherings to help widen the sponsorship net. At Cardiff's unspoiled Victorian Coal Exchange on Bute Square (the city's former commercial heart), John Metcalf's decidedly adventurous programme was launched last week with a mesmerising, solid evening by the American composer Steve Reich, fresh from his South Bank triumph with *The Cave*. Llandaff Cathedral offers an ample venue tonight for a full-scale John Adams concert, climaxing with his celebrated Whitman Civil War setting *The Wound Dresser* - like his operas *Nixon in China* and *The Death of Klinghoffer*, something of a cult piece.

Getting to the outside-Cardiff events is easiest - be warned - by car. But it's well worth the effort. These attractive smaller venues bring their own rewards, be it the atmospheric brick-rattled fourteenth century Braddestoke Hall, part of St Donat's Castle within the Atlantic College campus, or

the medieval wall-painted St Illtud's Church in Llanilltud Fawr (Llanilltud Major), an early Celtic Christian site with the added merits of an adjacent pub-studded square and a good surfing beach a mere two miles' distance.

Minimalist the diet may have been - but by no means monochrome. The Smith Quartet, one of Britain's answers to the Kronos, made appearances at both venues, the hall marginally the better for sound and paradoxically more intimate, thanks largely to the players being raised on a diet.

Like the 'modernism' it purports to replace, post-modern and minimalist fare is a mixed bag. The Smiths' reading of the now legendary *Different Trains* was somewhat differently balanced from Reich's own - not quite as haunted, perhaps, but clear and forceful. The South African-born, Princeton-associated Kevin Volans' Second Quartet, *Heaven/Gathering*, seemed to be questioning for a style as much as anything. Its repeating motifs and unified paragraphs have all the intensity of a short-running sitcom. Bones stick out balefully, rather as Steve Martland's *Patrol* is all sinew - laborious invention, oddly conventional and quintessentially dull.

But nothing can take away from the dedication of these players. Volans' Third Quartet, *Songlines*, like his Rimbaud (and Bruce Chatwin) inspired Almeida chamber opera *The Man who strides the wind* (*L'Homme aux Semelles de Vent*), was a revelation: riddled with imaginative ideas, well teased out, an array of string sounds that 'delight the ear and hurt not', that constantly challenge, dazzle and amaze. And Graham Fitkin's quartet *Servant*, like the Michael Nyman encore the following night, gave clear evidence of how minimalist can successfully subsume native and wider traditions.

You can still catch John Adams tonight at 7.30. Next summer's festival includes Australian Peter Sculthorpe and - yes, Gorecki. So book early (Tel. 0446 794948 192151).

Roderick Dunnnett

Edinburgh circus

Look on this circus and on this. Here we see smiling fresh-faced young performers, dressed in fairy tale costumes juggling cheerfully as they spin across the ice. There we see a grotesquely tattooed man known as The Enigma, crunching live loaves and chewing worms.

Circus has always been generous in its range, presenting the height of human endeavour in the ring while embracing freaks in its side shows. Today political correctness has forced circuses to specialise and the great Russian Circus on Ice offers escapist delight for children, while Jim Rose's American Circus Sideshow provides acts that usually surface in a Hammer movie.

Both have their attractions. A man on a monocycle (yawn), a man on a monocycle

skipping (yawn), but a man on a monocycle skipping on ice - now that's entertainment. The performance is sugary in the extreme, but its expertise and physical precision hold the interest, and you expect some camp in a tent.

I only closed my eyes once in Jim Rose's tent, erected on Carlton Hill with its stunning views over Edinburgh. That was when the Torture King put needles through his eyes. But it is all done against a backdrop of Rose's geniality, hysterical commentary which by the end had convinced me with its mock Gothic that at least some of the bodily defying deeds were tricks. This "circus of the scars" was in its way as camp as its rival in The Meadows.

Antony Thorncroft

Canadian Opera Company

One of the splash-making themes of this year's Edinburgh festival is the representation of four internationally "hot" theatre-directors: Peter Sellers, Bob Wilson, Robert Lepage, and - the focus of this final week - Peter Stein. This is the sort of high-wire planning and achievement that (in this country at least) now go on nowhere else. And certainly, the Canadian Opera Company double bill of Lepage-produced one-act operas by Bartók and Schoenberg - shown at the Edinburgh Playhouse at the weekend (for two performances only) - proved the very stuff of festival art: fresh, daring, full of striking ideas executed on a level well beyond the quotidian mundane.

It was an occasion full of firsts: the first British sojourn of Canada's leading opera company, Lepage's first encounters with opera, the first perfor-

mances at the restored Playhouse after the eve-of-festival backstage fire. The French-Canadian Lepage, whose in-the-mud *Midsummer Night's Dream* was recently staged at the Royal National Theatre, is a theatre magician, conjurer of a floating succession of picturesque images, sometimes haunting and sometimes startling, through which narrative is advanced.

Bartók's duo-drama *Bluebeard's Castle* and Schoenberg's monodrama *Erwartung* - two crypto-autobiographical masterpieces from the first decade of our century in which the deepest human passions are analysed in music and through psycho-symbolic stagecraft - would seem to offer him rich opportunities for just such conjuring.

Both operas, designed (by Michael Levine, brilliantly) to operate different features of the same setting, here colonise

different corners of the same dream-world. In both the stage, fronted by a gauze scrim, is lined along the right by the same large black-bull wall, a surface pregnant with possibilities - in Bartók, for reflecting the light-images thrown by the seven-fold door-opening on the opposite stage side; in Schoenberg, for suddenly releasing surreal visions through unexpected apertures and for supporting marvellous slow-motion body-tricks with gravity.

Fluid patterns of imagery are set in motion by cinematic changes of lighting (or should have been: at the Playhouse neither Robert Thomson's lighting-plot nor the general level of stage management was expertly seamless as one guesses they were meant to be). The unfolding of both operas, indeed, borrows from film method and manner: in grossly oversimplified terms, Eisenstein-cum-Disney.

In principle the style would appear ideally devised to unlock the tortured poetic secrets of both pieces. In practice I found it unexpectedly erratic partly because banal moments (advent-style autumn leaves and over-used plays with water-reflection) mingle with the magical, partly because a certain intellectual shallowness can be detected in Lepage's larger response to both operas.

The Bartók couple, though handily personated by Victor Braun and Jane Gilbert, are prone to obvious, melodramatic gesturing. More simple-minded still, in the Schoenberg, is the framing of the whole piece as an asylum patient's pathological fantasy - a straitjacket, a hospital bed, a psychiatrist with notebook are some of the ways in which Lepage, by "explaining" the opera's content, robs

its symbolic substance of multi-layered suggestiveness. Blood-links between the worlds of Schoenberg and Freud may be numerous and easily instanced, but that is no excuse for a cartoonish reduction in treatment of *Erwartung*.

If the reason was a determination to make more accessible a supposedly "difficult" opera by a famously tough-tongued composer, why then the singling out of Schoenberg and Bartók in the original languages, with surtitles high up and far away on the Playhouse proscenium arch? The total effect - of production style linked to the distancing impact of language-choice and of gauze limiting the performers' expressiveness of acting detail - was, I would say, the opposite: concealment as much as revelation.

Happily, however, the excellence of the purely musical realisation worked its own

countervailing action. The Canadian Opera Company orchestra, plainly of very high quality, showed itself in complete command of the Bartók's floods of colour no less than Schoenberg's nerve-end refinements of musical imagery; under Richard Bradshaw (COC chief conductor) both scores were revealed in depth.

Victor Braun, though lacking lowest-register solidity, is a superbly dark, noble Bluebeard. Jane Gilbert a vocally lustrous, wide-ranging mezzo. Judith, the *Erwartung* protagonist, Rebecca Blankenship, used an uneven dramatic soprano with admirable warmth, commitment and emotional urgency. In spite of my cavils, it all added up to a genuine festival-event.

Max Loppert

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INTERNATIONAL ARTS GUIDE

AMSTERDAM

Muziektheater Thurs: Netherlands Opera opens 1993-4 season with revival of Klaus-Michael Gruber's production of Parsifal conducted by Hartmut Haenchen, with a cast including Jan Hendrik Roetering, Wolfgang Schöne, Barry McCauley, Günter von Kannen and Rutild Engert (repeated Sep 6, 9, 12, 15, 18, 22, 25, 29). Sat evening, Sun afternoon (plus five further performances next week): Dutch National Ballet presents Peter Wright's production of Giselle (020-625 5455).

Concertgebouw Thurs: Arturo Tamayo conducts Rotterdam Philharmonic Orchestra in works by Messiaen, Stravinsky and Boulez. Sat afternoon: Edo de Waart conducts Radio Philharmonic Orchestra and Chorus in Mahler's Second Symphony. Next Mon: Gidon Kremer and friends chamber music evening. Sep 13: Simon Rattle conducts CBSO. Sep 18: Cecilia Bartoli (24-hour information service 020-675 4411, ticket reservations 020-671 8345).

Beurs van Berlage Sat: Mikhail Rudy plays Rakhmaninov's First Piano Concerto with Amsterdam Promenade Orchestra, in a programme including works by Gade and Zemlinsky (020-627 0488).

ANTWERP

Tomorrow at deSingel: Don Byron Sextet plays Latin jazz. Fri: Carolus Borromeus Church: Philippe Herreweghe conducts Collegium Vocale in Monteverdi's Vespers. Sat: Gabrieli Consort and Players play Monteverdi. Sun afternoon at deSingel: Stefan Soltesz conducts Flanders Opera Orchestra and Chorus in Mahler's Second Symphony. Sun and Mon in St Augustinus Church: Monteverdi madrigals with Concerto Italiano. Information from Grote Markt 29, B-2000 Antwerp, tel 03-226 9300; tickets from Tele Ticket Service tel 070-233233 or in person at Fnac, Groenplaats, Antwerp).

BRUSSELS

Monnaie Thurs, Fri, Sat: Achterland, ballet by Belgian experimental choreographer Anne Teresa De Keersmaeker. Sep 11: opera season opens with first of a series of concert performances of Fidelio (02-219 6341). Palais des Beaux Arts Sat: Stefan Soltesz conducts Flanders Opera Orchestra and Chorus in Mahler's Second Symphony. Sun: Antonio Pappano conducts Orchestra of the Monnaie in works by Beethoven and Richard Strauss, with violin soloist Thomas Zehetmair (repeated in Antwerp next Tues). Next Mon:

Philippe Herreweghe conducts Collegium Vocale in Monteverdi's Vespers. Next Tues: Gidon Kremer and friends. Sep 11: Simon Rattle conducts CBSO. Sep 13: Maurizio Pollini (02-507 8200).

CHICAGO

RAVINA'S FESTIVAL Tonight's drumming concert is by Vinu. Tomorrow, Thurs, Fri, Sat: Hubbard Street Dance Company presents two programmes, including choreographies by Twyla Tharp and Daniel Ezralow. Sun: Bramwell Tovey conducts Ravinia Festival Orchestra and Chicago Symphony Chorus in Gilbert and Sullivan. Next Mon: Tchaikovsky night. End of season (312-728 4642).

CHICAGO SYMPHONY The new season at Orchestra Hall opens on Sep 17 with the first of four performances of Verdi's Requiem conducted by Daniel Barenboim, who also directs three other programmes in late September and early October (312-435 6668).

CHICAGO LYRIC OPERA The 1993-4 season at Civic Opera House opens on Sep 18 with La traviata staged by Frank Galati and conducted by Bruno Bartoletti, with a cast led by June Anderson. Giuseppe Sabbatini and Dmitri Hvorostovsky. Messner's Don Quixotte is revived on Sep 28 with Samuel Ramey in the title role, and Carlisle Floyd's Susannah receives its first Chicago staging on Oct 9 (312-332 2244).

GHENT

After five years of renovation, Ghent's opera house reopens on

Thurs with a gala concert conducted by Stefan Soltesz, featuring the Flanders Opera Orchestra and Chorus, the City of Birmingham Symphony Chorus and soloists Hilde de Groote and Anne Gjevang. The programme is devoted to Mahler's Second Symphony (repeated in Brussels on Sat evening and Antwerp on Sun afternoon). Staged opera productions in Ghent resume on Sep 23 with the first of four performances of Verdi's Otello (091-225 2425).

LINZ

This year's Bruckner Festival runs from Sep 11 to Oct 3. The opening performance of the Eighth Symphony will be given by the Bavarian Radio Symphony Orchestra conducted by Lorin Maazel. Other visitors include the Hilliard Ensemble with choral music by Bruckner, Pärt, Purcell and Cage; I Solisti Veneti with works by Respighi and Wolf-Ferrari; and Russian pianist Lazar Berman. Horst Stein conducts the Bamberg Symphony Orchestra in Bruckner's First Symphony, Philippe Herreweghe conducts La Chapelle Royale in Bruckner's Mass in E minor with wind accompaniment, and the final two concerts are given by the London Philharmonic under Franz Welser-Möst (Brucknerhaus-Kasse, Untere Donaulände 7, Postfach 57, A-4010 Linz, tel 0732-775230).

VIENNA

OPERA The new season at the Staatsoper begins tomorrow with Aida, starring Aprile Millo (repeated on Sat and

next Thurs). The opening week also includes Madama Butterfly with Catherine Malfitano and Die Zauberflöte. A cycle of Wagner's Ring conducted by Donald Runnicles begins on Sat, with a cast including Robert Hale, Hildegard Behrens, Waltraud Meier, Paul Elting and Wolfgang Schmidt (0222-51444 2955). The Schlosstheater at Schönbrunn has two Mozart productions, Le nozze di Figaro and a double bill, daily except Mon and Tues till Sep 18 (0222-377 3136).

CONCERTS

Yuri Temirkanov conducts the St Petersburg Philharmonic Orchestra in works by Brahms and Tchaikovsky tonight at Konzerthaus. Daniel Barenboim conducts the Vienna Philharmonic in works by Strauss and Tchaikovsky on Sun morning at the Musikverein (0222-4000 8410). The VPO's first subscription concert of the new season are conducted by Riccardo Muti on Sep 18 and 19. Alfred Brendel gives a Beethoven recital on Sep 21 (0222-505 8190).

WASHINGTON

Collophene Xerox: Frederick Gaines' play explores the legacy of Kent State, Ohio, in 1970, when the National Guard was ordered to shoot at students protesting against the Vietnam war. Opens tomorrow, till Sep 19 (George Mason University Center for the Arts 703-993 8988). The Kentucky Cycle: Robert Schenck's tale of three families who settle, feud and die for the hills and hollows of eastern Kentucky.

The play, divided into two parts played on separate evenings, spans 200 years of American history, with a cast of 20 portraying 72 roles. Daily except Mon till Oct 23 (Kennedy Center Eisenhower Theater 202-467 4800). Jesus Christ Superstar: Andrew Lloyd Webber's musical, daily till Sun (Wolf Trap, 1624 Trap Road, Vienna, Virginia, 703-218 8500). Phantom of the Opera: Andrew Lloyd Webber's musical, directed by Harold Prince, till Oct 2 (Kennedy Center Opera House 202-467 4800).

ZURICH

OPERA The 1993-4 season at the Opernhaus opens tomorrow with a revival of Tony Palmer's production of *La forza del destino* conducted by Elisha Eshel, with a cast led by Mara Zampieri and Giorgio Zancanaro. The opening week also includes Bob Wilson's production of Lohengrin and Il barbiere di Siviglia. The first new production is Henze's Der Prinz von Homburg, opening on Sep 12 with Thomas Hampson in the title role (01-262 0909).

CONCERTS

Yuri Achronovich conducts the Tonhalle Orchestra in works by Tchaikovsky and Prokofiev on Fri at the Tonhalle, with piano soloist Vladimir Krainiev. Gerd Albrecht conducts the Czech Philharmonic next Mon in works by Dvorak and Mendelssohn. Alfred Brendel gives a Beethoven recital on Sep 19 (01-261 1600).

ARTS GUIDE

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As President Bill Clinton returns to Washington this week after his seaside holiday, domestic and economic problems, such as the ambitious reform of the healthcare system or the passage of the North American Free Trade Agreement, loom largest on his agenda for the autumn.

But the clocks are running on a more international task, the transformation of the Atlantic alliance to meet a new set of needs and perils after the end of the Cold War.

One clock is of Mr Clinton's own setting: the summit of the North Atlantic Treaty Organisation scheduled for January 10, called at the US's request, demands an effort to spell out a new future for the alliance.

"Ticking more insistently, however, is the festering disaster that confronts Nato and the world community in Bosnia.

If Bosnia is the model for the kind of regional and ethnic conflict that will replace the monolithic threat of the Warsaw Pact in Nato's strategic planning, it has posed uncomfortable questions that have received few good answers.

"It is a terrible model but it is the first one," commented Mr Helmut Sonnenfeldt, a scholar at the Brookings Institution in Washington and formerly a senior foreign policy official in the Nixon and Ford administrations.

Mr Sonnenfeldt is one of many observers who join General John Shalikashvili, the Supreme Allied Commander in Europe who has just been appointed to the chairmanship of the US Joint Chiefs of Staff, in arguing that Nato has, at least on the technical and military level, done well in the face of the Bosnian crisis.

"On a military level the institution has performed very effectively. What has not happened are the political decisions that trigger action," Mr Sonnenfeldt said, pointing to the plans drawn up, but never implemented, for the policing of the Vance-Owen peace plan as well as for air strikes against the Serbs.

Colonel Don Snider, director of political-military affairs at the Center for Strategic and International Studies, a Washington research centre, sees a need for further changes to Nato's command structure and conventional forces, but agrees that the greatest challenge is in the political area.

"The political transformation of the alliance is not complete," he said.

In the search for a broader political vision of the future of

Quest for a strategy

George Graham on the debates in Nato over its future shape

Nato, clear leadership has yet to emerge from the governments of member countries, and especially from the US; for the moment, at least, the debate is taking place mostly among academics.

One contribution to the debate, by Messrs Ronald Asmus, Richard Kugler and Stephen Larrabee of the Rand Corporation, a California-based think tank, is published today in the journal *Foreign Affairs*.

The authors have worked closely with Senator Richard Lugar, the Indiana Republican who is one of the few members of Congress to have grappled with the issue, and who has trademarked the catchy phrase "out of area or out of business".

Clear leadership of Nato has yet to emerge from member governments, especially the US

To summarise Nato's dilemma. They argue that Nato desperately needs to address the conflicts along its southern and eastern flanks if it is not to become irrelevant, and spell out six political steps they see as necessary "to forge a new transatlantic bargain".

The first is "to transform Nato from an alliance based on collective defence against a specific threat into an alliance committed to projecting democracy, stability and crisis management in a broader strategic sense".

Nato also needs a more harmonious balance between the US and Europe and a strong Germany fully participating in the alliance.

Asmus, Kugler and Larrabee also urge a constructive security relationship with both

Russia and the Ukraine, and a co-ordinated strategy for the integration of Poland, Hungary, the Czech Republic and possibly Slovakia as members of the alliance.

The call for Nato to extend its membership to the east is now widely echoed in US academic circles, though hotly contested in the same issue of *Foreign Affairs* by Mr Owen Harries, formerly a senior Australian diplomat.

Poland last week renewed its urgings to Nato to make a formal statement that it viewed the country as a future member after President Boris Yeltsin of Russia declared Polish membership would not be contrary to Russia's interests.

But although the proposal is gaining ground in the US Congress, where Senator Lugar has warmly endorsed it, and also among some German politicians, in the US administration ideas about "outreach" to eastern Europe stop well short of early Nato membership.

Most European governments, meanwhile, are too preoccupied with ensuring the US does not leave the alliance to be much interested in new members.

Academics and think-tank analysts in Washington complain bitterly that the Clinton administration is still a very long way from formulating anything like a comprehensive approach to Nato's future - although many are hopeful that General Shalikashvili has thought hard about the problem and may inject a new sense of urgency.

"Right now I don't think anybody in the administration can tell you what they are going to do at the Nato summit," says Colonel Snider.

So far, haphazard defence budget cuts in the US and Europe have done more to reforge Nato than any clear strategic conception.

Because it was he who called for the meeting - and because his claim to leadership on the world stage remains sparse - Mr Clinton stands in particular need of turning next January's summit into a success.

But if Nato continues to play the grand old Duke of York in Bosnia, marching its troops to the top of the hill and then marching them back down again, it seems likely to be seen to have failed its first big post-Cold War test - whatever the effectiveness of its military planning.

If the Bosnian crisis continues to fester, Nato's perceived failure there could cloud the summit, and the alliance's future.

The question of whose pollution is producing acid rain, causing European forests to wither and fish to die, is one of the longest-running international environmental disputes. Officials from 36 countries meeting in Geneva this week will try to find an answer.

The issue is particularly sensitive for Britain, which has been accused of jeopardising a United Nations-backed treaty to curb the pollution. Britain's refusal in 1985 to sign an earlier agreement curbing sulphur emissions, one of the leading causes of acid rain, earned it the tag of "dirty man of Europe". The UK has found it hard to shrug off the label, despite introducing expensive measures to clean up power stations, the main polluters.

Now Britain's resistance to the latest, more stringent targets proposed by the United Nations Economic Commission for Europe in Geneva, which includes western and eastern Europe as well as the US and Canada, is drawing new venom from its neighbours. Earlier this month, Mr Thorbjørn Bernsten, Norway's environment minister, hurled personal abuse at Mr John Gummer, his UK counterpart.

The British reluctance is prompted by the desire to protect the already shrinking demand for British coal from power generators. Tighter emission standards might force them to burn less British coal. But some government officials privately fear that the UK is sacrificing its hard-won environmental record for nothing.

The programme to close mines and to generate a greater proportion of electricity from gas means that the UK may meet the proposed targets, in the same way that it has now met the terms of the 1985 protocol it once resisted. "The negotiating position on acid rain is not taking account of the actual run-down of the coal industry," according to one observer of the talks.

International disputes over acid rain first emerged at the end of the 1970s when the Scandinavians sought explanations for why some of their forests were turning brown. Acid rain is caused mainly by sulphur dioxide, which is emitted when coal and oil are burnt, and by nitrogen oxides, emitted by power stations and transport. The acidity is generally slight, "about the same as a can of Coca-Cola", says Professor Ian Fells of Nottingham University. But the gases, sometimes dissolved in rain,

Dilution measures for acid rain

The UK's awkward diplomacy may be tarnishing a hard-won record, writes Bronwen Maddox



Pollution plight: acid rain is causing Europe's forests to wither and its fish to die

can travel thousands of miles - across national borders - before being deposited, making disputes particularly hard to resolve.

Scientists generally agree about the harmful effect of the acid on water quality and fish, and its role in corroding buildings. However, "there is more doubt about the mechanism of damage to trees - it can be hard to distinguish the effects [of acid rain] from those of drought," says Prof Fells.

The source of acid rain is clear, however. In Britain, coal-burning power stations are the main culprits, spewing out 72 per cent of total sulphur emissions in 1990. They also discharged 28 per cent of nitrogen oxides in the same year, though this is less than the amount discharged by traffic.

Nevertheless, Britain's emissions have been falling because the decline of heavy manufacturing has reduced industrial energy demand, and there has been a switch by domestic users from coal and oil to gas. Sulphur dioxide emissions

dropped from 6.4m tonnes in 1970 to 4.9m tonnes in 1990 and 3.6m tonnes last year.

Emissions are now set to fall further, partly because of the need to fall into line with the European Commission's large combustion plant directive, a treaty covering power stations. National Power, one of the two main generators in the UK, emitted 1.3m tonnes of sulphur dioxide last year; it must halve that level by 2003. PowerGen, the second-biggest generator, last year produced slightly less than 1m tonnes of sulphur dioxide and must cut levels to 669,000 tonnes by 1998.

These targets will be reached by two routes. The first - fitting old, coal-fired power stations with equipment to remove sulphur and other pollution - is expensive. Between them, the generators expect to spend more than £3bn on such improvements during the 1990s. But power companies find it cheaper to switch to cleaner fuels such as natural gas or imported coal, which has roughly

half the sulphur content.

The result of these changes, environment ministers say, is that the UK will not only meet the EC directive on large plants, but also the terms of the 1985 United Nations treaty it refused to sign. That prediction holds firm, ministers say, despite the government's decision this month to license the use of oil, dubbed the "world's dirtiest fuel".

Despite such optimism, Britain is arguing in Geneva that it would have difficulty meeting the proposed terms. The UK's neighbours are pressing for it to make a 79 per cent cut in sulphur emissions in 1990 levels possibly by 2000. Britain is countering with a bid of a 70 per cent cut by 2005.

Other countries derive the 79 per cent figure from the model developed by the Austria-based International Institute for Applied Systems Analysis, the most-quoted of the three scientific models used by the UN. According to Ms Fiona Weir, of Friends of the Earth, the environmental pressure group,

Britain's reluctance to accept the 79 per cent target implies that it is abandoning "the principle of basing standards on good science".

Government officials reject this claim, saying that Britain's resistance stems from disagreement with the model. They argue that another UN model, run by Imperial College in London, recommends a lower target for UK emissions.

But officials also concede that the principal force behind the British position in Geneva is the Department of Trade and Industry's desire to protect British Coal, after the political storm aroused by this year's pit closures. The DTI fears that power generators would turn to imported coal or shut down ageing coal-fired power stations prematurely rather than fit expensive pollution-control equipment.

Some independent forecasters endorse this view. Mr Jim Skea, energy specialist with the Sussex University-based Science Policy Research Unit, says: "If the government signed up to a 79 per cent reduction by 2005, that would probably be the nail in the coffin for what is left of the British coal industry."

The DTI argues, though, that its caution is warranted. Its officials believe the decision not to sign the 1985 protocol was right at the time - a fall in emissions during the 1980s was not anticipated.

But some officials in the UK environment department point out that the dispute on targets may be unnecessary. The irony, they suggest, is that many coal-fired power stations are scheduled to be taken out of commission only a few years after the date set for pollution reductions. Britain will then see a further sharp fall in emissions, and may, after all, meet the toughest proposed targets.

If this is the case, the UK government's awkward diplomacy on acid rain will, for a second time, have tarnished the appearance of a respectable environmental record. In the meantime, by insisting on keeping its options open, Britain is dealing itself a difficult hand, and its neighbours' frustration is unsurprising. If "dirtytalk" is the only insult hurled at British cabinet ministers on the road to a new sulphur protocol, and Norwegian the only European language in which abuse is uttered, the government may consider that it has got off lightly.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

No illusions over Bundesbank

From Mr Allan Sanderson.

Sir, As the editor of the only English-language newsletter focusing on German monetary policy I have to take issue with your contention that it is almost impossible for non-German analysts to understand what the Bundesbank is about ("Bundesbank stays tough", leading article, August 27).

It is very simple really. The Bundesbank has a legal mandate to combat domestic inflation. Its 1957 constitution makes no mention of cross-border responsibilities. And domestic growth and employment are accorded considerably lower priority. So why the puzzlement as to Bundesbank motives?

Two further points. First, there is a growing case for questioning if high nominal short rates are, under the present circumstances, the best method of bringing German money supply and inflation back under control.

They are artificially inflating time deposits (32.5 per cent of M3) to the detriment of longer-term forms of savings, and they are inducing speculative capital inflows that expand overall domestic liquidity.

Second, non-German financial professionals constantly overlook the fact that credit policy decisions in Germany are made by a Bundesbank council consisting of 16 members, each with one vote and an individual political affiliation.

Rate decisions are a matter of high politics in both a partisan and a personal sense

within this closed forum - whatever the Bundesbank itself tries to maintain. As long as many in the council, including its current president, continue to believe that high rates are the solution to unacceptably high inflation, the absence of cuts on July 29 and last week completely fulfils the Bundesbank's constitutional mandate.

There are, however, signs that a rethink of the current high-rate policy is being kindled by the newly appointed senior Bundesbank officials, particularly vice-president desam Johann Wilhelm Gadem.

Such arguments have yet to win the hearts and minds of the council majority. But we believe that they will do so well before the end of the year.

Allan Sanderson, editor, *The Old Continent newsletter*, Frankfurt Allgemeine Zeitung Information Services, D-60267 Frankfurt/Main, Germany

From Mr D A A Fagandini.

Sir In your lead of August 27 you point belatedly to the fact that the financial world is overwhelmed by English-speaking analysts and commentators. Nevertheless, your standpoint remains unchanged as you try to interpret the policies of the German central bank.

You continue to underestimate two considerations that influence the Bundesbank's decisions over and above its current statutory duties: first, that if there is to be a single

European currency it will have to be indistinguishable from the DM; and second, that the central bank responsible for a European currency will have to demonstrate - and be able to defend - its independence, not only from politicians but above all from the market.

It is obvious that the attitude in Frankfurt is that, if possible, no significant reduction in base rates should occur under market pressures and that, for as long as thunder continues to roll in New York and London, such corrections will be resisted. Too much at stake. It should be equally obvious that a majority of continental politicians are under no illusions. There is a deep-seated, if unstructured, demand for a higher degree of unity; it may be naive but it is a political reality that the UK has never fully appreciated.

Matters would be quite different if the cohorts of English-speaking analysts could point to decades of successful economic management where their advice was taken seriously.

Regrettably that is not the case. Those with whom we have felt most comfortable in the marketplace will always have the strength to safeguard their dollar.

Stirling, our once proud unit, will be left to its fate, and we to ask ourselves how the came about. No reasons are to be found in any of the memoirs of our politicians.

D A A Fagandini, 6 Alwyn Park, London SE21 3AE

Go for less accuracy in forecasts

From Mr Ernest J Freyhan.

Sir, July's lower than expected public sector borrowing requirement figure (not, please, "number") followed hard on the heels of last year's lower than estimated current account deficit. Once again, this undermines the precariousness of short-term economic forecasts. And because of the growing likelihood of a lower than budgeted PSBR out-turn for the current financial year as a whole, it also points to inaccuracy in long-term forecasting.

So why can't forecasters take the hint and hedge their bets more safely by forsaking the dare-devilery of decimal-point precision, in favour of nothing more ambitious than half, or at most quarter percentage-point gradations only? (As if the difference between actual or forecast 1.2 and 1.3 per cent gross domestic product growth was at all meaningful.)

Let me remember, first, that the greater the accuracy aimed at, the poorer the accuracy likely to be achieved, quite apart from the rickiness of underlying data.

Second, let awareness of their fallibility encourage more humility on their part and less gaudiness on ours - both, admittedly, tall orders.

Ernest J Freyhan, 65 Vincent Court, Bell Lane, Hendon, London NW4 2AW

Satellite and cable offer excellent choice

From Mr Alan Burkitt-Gray.

Sir, So who does have original programming on television these days. Christopher Dunkley could have asked before he savaged cable and satellite channels ("Scrambled Sky at a premium", August 25).

Look at the schedules for that day. At peak time, 9.30pm, all four terrestrial channels had repeats. Of course they also produce lots of their own material. So, in time, will the cable and satellite channels in the UK - just as, for example, Discovery's US parent is doing after only a few years in business. It already has fresh pro-

gramming: last month it showed the four-part series, *The Dinosaurs*, later repeated by Channel Four.

Both Sky News and CNN International carry original programming of the most expensive kind all day (including FT Reports). I, for one, would not be without them. Meanwhile, this weekend the cable and satellite sports channels had live cycling, motor racing, motorcycle racing, horse racing, golf, tennis, athletics, soccer and rugby league. Not to my taste, perhaps not to Mr Dunkley's. But to offer such programmes is hardly

"repackaging parasites".

What is wrong with repeats, anyway? The BBC has revived a 1960s cult by digging out *Thunderbirds* and today it is dedicating the whole day to a celebration of that decade. This very different from having Sunday's choice of *The Six Wives of Henry VIII* and *Oliver Twist* on UK Gold, Brighton Rock and *Loot* on Bravo?

Alan Burkitt-Gray, editor, *Cable & Satellite Communications International*, 104 City View, 463 Bedford Green Road, London E8 9QT

Pre-election tax cuts are same old story

From Mr Geyve Walker.

Sir, Why should it merit front-page headlines when the government plans to go into the next general election holding out the prospect of tax cuts?

Isn't this what they always do?

Geyve Walker, *The Old Vicarage, Barton, Warwick, CV9 1JL, Warwick, CV9 1JL*

REPUBLIC OF LEBANON MINISTRY OF NATIONAL EDUCATION & YOUTH & SPORTS COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION

BEIRUT SPORT CITY PRE-QUALIFICATION OF CONTRACTORS

The Government of Lebanon, represented by the Ministry of National Education & Youth & Sports and the Council for Development and Reconstruction (CDR), invites applications from suitably qualified building and civil engineering contractors to pre-qualify to tender for the Rehabilitation and Construction of Beirut Sport City.

The Project will be financed by grants from Arab Countries. It will comprise the construction of the following main elements:

- A new olympic stadium for 50,000 seated spectators and its auxiliary services with an approximate built area of 80,000m² and about 27,000m² built-area of stands.
- A new swimming olympic center comprising:
 - an open swimming pool for 2000 spectators
 - an open diving pool for 1000 spectators
 - a covered swimming pool for training. All the above cover an area of around 13,500 m².
- An administrative building with an approximate built-up area of 2000 m².
- An open tennis center comprising:
 - a central court for 4000 spectators and their auxiliary services
 - three other open tennis courts.
 All the above cover an area of around 10,000 m².
- The rehabilitation of an existing indoor sports facility for 4000 spectators with an approximate area of 7000 m².
- A turf club with an approximate area of 10,000 m².
- A hotel of 120 bedrooms.
- The landscaping of the site (= 23 ha) consisting of the necessary network and infrastructure (roads, parking areas, piazza, green area, etc...)

The construction period is programmed for 24 months.

The tender period will be from 2nd of January to 28th of February 1994.

Pre-qualification applications must be on the basis of the pre-qualification document prepared by the Council for Development and Reconstruction, which will be available at the CDR offices against the sum of U.S.\$ Three Thousand (3000 \$) effective September 1, 1993 at the following address:

Council for Development and Reconstruction
Tallet El-Serail
Beirut - Lebanon.

Deadline for returning the duly completed pre-qualification document with all relevant supporting material is 12:00 noon (Beirut Local Time) on Friday 15/10/93.

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Tuesday August 31 1993

Scientists and supply

WARNINGS about the decline in Britain's science base - and the dire implications for the country's competitiveness - have been a feature of the British Association annual meeting for at least three decades. A particular theme this year at Keele is that the UK is producing too few trained scientists and breeding a scientifically illiterate younger generation.

The sharp decline in numbers taking science A-levels is causing alarm. So is the glaring contrast between empty places on university science courses and serious overcrowding in the arts and social sciences. And in the background is a sense of antipathy following the science white paper three months ago, although it contained some good ideas, the government has not built on the opportunity it created to lead the case for British science.

The debate about how to attract more bright young people to the subject - and at the same time increase public understanding of science - contains so many strands, knitted together by so many people over such a long period, that it is sometimes hard to disentangle prejudice, anecdote and special pleading from soundly based argument.

For example, it was true as alleged that the British education system had systematically, over many years, produced fewer scientists than business and academia needs, there is no doubt that their price would rise. And yet evidence from the UK job market points to a higher graduate unemployment rate in science than in arts and yields abundant evidence of poor salaries in scientific research. Manifest shortages do exist, but only in well-defined areas, such as top quality pharmaceutical scientists for the drugs industry.

Fundamental issue

There does not seem to be too much point in increasing the supply of scientists, if there is no demand for them. But that, of course, raises the question of whether Britain is using as many scientists as it should.

Apart from the fundamental issue of the relative size of its research and development effort, where Britain lags, there is the well-documented shortage of scientists in the upper reaches of

management in British companies, as well as in the public sector. Research recently sponsored by the Economic and Social Research Council suggests that companies perform better if they have senior managers with scientific backgrounds.

There the government is in a position to help - by making the civil service give a higher priority to science graduates when recruiting administrative trainees. This might also improve government's skill in handling the wide range of policy issues that touch on science and technology, from reprocessing nuclear waste to investing in new trains for British Rail.

Primary focus

On the supply side, action is certainly needed at all levels of the educational system, with perhaps a primary focus upon the 11 to 15 age range. Strong anecdotal evidence suggests that many older scientists working today were inspired originally by excellent science teaching in the early years of secondary school. Those teachers have retired and their successors are, on the whole, less inspiring; so the current generation of schoolchildren is being turned off science by dull lessons that seem both pointless and more difficult than other subjects. The government's bursary scheme for training science teachers is beginning to turn the tide here, but better financial incentives are still required to attract good scientists to teaching.

Further up the educational ladder, science would benefit from a broadening of the A-level system, so that all candidates studied at least one arts and one science subject to the age of 18. It should be recognised that such a change would increase the teaching burden on universities; most science students would start off knowing less than someone today with maths, physics and chemistry at A-level. It might even be necessary to add an extra year to many three-year undergraduate courses.

Change to the A-level system is something which the government has vigorously resisted for years. If it is serious about bringing science and scientists to greater prominence in education and business, it will have to change its mind.

Time for unity in Nigeria

UNLESS NIGERIA'S civilian leaders settle their differences, the grip of the military will tighten and the country's crisis will deepen.

The promise by Chief Moshood Abiola to return to Lagos this week and claim the presidency denied him is dangerous and impractical. The bellicose response from Chief Ernest Shonekan's new interim government, equating such an act with insurrection, smacks of a military dictatorship. Neither serves the interests of 80 million anxious Nigerians.

United the two men are better placed to demand that the military fulfill its promise to hand over to civilian rule; divided they may provide General Ibrahim Babangida with a pretext to return.

The general, who ostensibly stepped down last Thursday as Nigeria's military leader, has left a dangerous legacy. The new interim civilian government has little popular support, and the military regime behind it is divided. Babangida loyalists wish to extend military rule, some officers are anxious to return to barracks, while others believe it is their turn to plunder state coffers.

Meanwhile the economy continues its rapid deterioration. The country's structural adjustment programme has lapsed, and mounting arrears push external debt towards \$4bn, well beyond the country's capacity to service. A general strike called in support of Chief Abiola paralyses Lagos and threatens to disrupt vital oil exports. Last week's announcement of a ten-fold increase in the price of a new premium grade of petrol coincided with a nationwide shortage of the lower grade fuel, infuriating the public and sparking massive protests when the holiday weekend finishes today.

Confronted by the country's worst crisis since the Biafran civil war in the 1960s, civilian politicians are split into two camps.

Pragmatic argument

One supports the interim government led by Chief Shonekan, albeit with generals in charge, but has promised fresh elections by March next year. The other insists that Chief Abiola's victory in the annulled June presidential poll be put into effect.

Both have a case. The former is

based on the pragmatic argument that civilians must make the best of the army's terms; the latter rests on the principle that the electorate's verdict should be respected, and maintains that the army's record of broken promises warrants confrontation.

Ethnic rivalries

But underlying a division over tactics are tense ethnic rivalries, with the Yoruba south lining up behind Mr Abiola, and the Hausa-Fulani north seeking a second chance to win the presidency.

Before Mr Abiola risks a confrontation that could split the nation, Mr Shonekan should be given time to show that his alternative could work. Admittedly there is good reason to be sceptical. The previous interim government was also led by Mr Shonekan. Within weeks it became clear that the civilians were powerless.

Nor does the new cabinet inspire confidence. It includes a minister of information who enthusiastically endorsed the recent banning of several newspapers. The proposed minister of planning is a vociferous critic of the economic reforms Mr Shonekan tried unsuccessfully to revive.

If Nigerians are to be convinced that this time round things are different, he has to act swiftly. He has already taken some first steps, persuading the military to shorten the transition period from 12 to six months. Over the weekend he released jailed journalists and human rights campaigners. He should follow this by lifting the newspaper ban.

But above all he should seek an accommodation with Chief Abiola, in which together they keep up pressure on the military. The chief should be guaranteed safe passage when he returns home, together with the right to contest the March election. In return Mr Abiola should suspend his threat to form a Lagos-based government.

The generals may object in which case the interim government is exposed as a sham, and Nigeria's prospects are bleak indeed. But in the meantime Mr Shonekan and Mr Abiola owe it to their country to exchange olive branches, not epithets. The sooner the two men find common cause, the better the chance that democracy will finally come to Nigeria.

Jericho, for all that its name resonates with history, now seems just another sleepy, dusty Palestinian town in the Israeli-occupied part of the Jordan valley. But if an extraordinary deal hammered out in secret by Israeli and Palestinian representatives in recent weeks becomes reality, it may just be in for something of a revival.

If it is consummated and implemented, Israeli troops will withdraw from the Jericho area and from the Gaza Strip, both of which they have occupied since the six-day war of June 1967. For the first time since the foundation of the state of Israel in 1948, their Arab inhabitants will be allowed substantial control over their own affairs as part of a five-year interim arrangement for Palestinian self-rule.

And with a lot of luck, a conflict that has claimed thousands of lives and several times brought the world close to war in the past 45 years will have taken a small but momentous step towards resolution.

A signed accord between Israel and the Palestinians would itself be of enormous psychological significance, especially if it entails mutual recognition between Israel and the Palestine Liberation Organisation, a body that Israelis have grown used to excoriating as a terrorist group bent on their destruction. Progress in Israeli-Palestinian talks could also trigger movement in separate peace negotiations between Israel and Syria, which could - eventually - open the way to a comprehensive Middle East peace agreement.

These developments would have seemed all but inconceivable even a few weeks ago. The Arab-Israeli peace talks launched in Madrid in October 1991 had dragged on for 22 months with little tangible sign of progress, and no sign of preparedness by the Israelis or Palestinians to budge from long-entrenched positions. Now, all of a sudden, almost

Even a summit meeting now seems possible between the dour Mr Yitzhak Rabin and Mr Yasser Arafat

anything seems possible - even, someone suggested yesterday, a summit meeting between Mr Yitzhak Rabin, Israel's dour, growing prime minister, and Mr Yasser Arafat, mercurial chairman of the Palestine Liberation Organisation.

Small wonder that seasoned Middle Eastern observers were yesterday reeling in disbelief - or that sceptics were pointing to the many hurdles that have still to be surmounted.

Never in the 22 months of the Middle East peace process have minds been more wonderfully concentrated. To its advocates, the "Gaza-Jericho first" proposal offers for the first time the prospect of Palestinian autonomy in the lands occupied by Israel in 1967. To its opponents, it is a "catastrophe", in the words yesterday of Mr Abdul Aziz Rantisi, the exiled leader of Hamas, the Palestinians' militant Islamic movement. The next few weeks will show whether Mr Rantisi and other rejectionists can avert this "catastrophe".

For the moderate Arab governments who have pressured the Palestinian leadership to agree to this first, limited form of autonomy, the "Gaza-Jericho first" proposal is the start of the endgame. Mr Amr Moussa, the Egyptian foreign minister, welcomed the proposed deal as such yesterday, saying any withdrawal of Israeli forces from occupied lands was welcome, though only so if it was the first step in a greater disengagement.

But the rejectionists within the Palestinian fold signalled their profound distaste for a deal which they see as a sell-out by a beleaguered Mr Yasser Arafat, chairman of the Palestine Liberation Organisation. Can organisations such as

Peace plan poised on a hair trigger

Julian Ozanne and Andrew Gowers on the potentially momentous outcome of secret Israeli-PLO talks

What has stimulated the current anticipation is the fact that Israel - in the person of Mr Shimon Peres, the country's veteran foreign minister - and the PLO have already apparently reached an outline agreement. According to Israeli and Palestinian officials, the document was finalised at a secret meeting last week in Norway between Mr Peres and Abu Mazen, the PLO official responsible for peace talks. It is expected to be signed formally at the Washington peace talks, which enter their eleventh round this week.

Many of the most difficult and sensitive details remain obscure. But what is known is that it outlines a comprehensive plan for a five-year period of interim Palestinian self-rule in the West Bank and Gaza Strip, two or three years into which "confidence-building" phase, talks about the final status of a Palestinian "entity", probably in confederation with Jordan, will begin.

At the heart of the agreement is the so-called "Gaza-Jericho First" plan which envisages an Israeli military withdrawal from the Gaza Strip and from a hitherto undefined enclave around Jericho. Gaza, a 360 sq km sliver of land, is home to 780,000 economically deprived Palestinians, many living in sprawling squalid shanty towns. A Palestinian elected interim authority will assume full control over Palestinian affairs in Gaza-Jericho but its powers will fall short of a Palestinian mini-state. In the rest of the occupied West Bank, excluding east Jerusalem, the Palestinians will have lesser powers over their affairs.

There are sufficient uncertainties to warrant caution about whether the deal will stick. The extent of Israeli withdrawal, for example, remains unclear. The PLO has said the agreement provides for a full withdrawal of Israeli troops and military administration. Jerusalem says the agreement means a troop redeployment away from the population centres in Gaza-Jericho but leaves the Israeli army with a security role for settlers in Gaza and for the critical road between Jerusalem and the Allenby bridge border



Chronology of the conflict

May 1948 - First Arab-Israeli war; Israel annexes large portions of proposed Arab state in Palestine.
1956 - Egypt nationalises Suez Canal. Israel attacks Sinai peninsula, pushes towards canal. Anglo-French troops invade Egypt. Israeli, British and French forces withdraw under US pressure.
1964 - Arab states create the Palestine Liberation Organisation.
June 1967 - Six-day war: Israel attacks Egypt, Syria and Jordan, captures Sinai Peninsula and Gaza Strip from Egypt, the Golan Heights from Syria, and the West Bank and East Jerusalem from Jordan.
November 1967 - UN Security Council passes Resolution 242, basis for international efforts to secure a land-for-peace agreement, calling for Israeli withdrawal, recognition of all states in the area and a refugee settlement.
1969 - Yasser Arafat (left) becomes PLO chairman.
October 6, 1973 - Egypt and Syria attack Israeli forces in Sinai and Golan Heights on the Jewish feast of Yom Kippur. The war is inconclusive.
October 22, 1973 - UN Security Council Resolution 338 calls for a ceasefire, implementation of Resolution 242 and immediate peace negotiations.
1974 - Arab states recognise PLO as sole legitimate representative of the Palestinian people.
September, 1978 - Egypt, Israel and the US sign Camp David accords, offering limited autonomy to Palestinians in occupied territories.
1979 - Israel, Egypt sign treaty. Israel agrees to return Sinai Peninsula to Egypt but keeps Gaza Strip.
June, 1982 - Israel invades Lebanon to drive out Palestinian guerrillas.
December 1987 - Intifada (uprising) against Israeli rule breaks out in West Bank and Gaza Strip.
November 1988 - Palestinians in exile declare own state, implicitly recognising Israel.
December 1988 - Arafat recognises Israel's right to exist and renounces terrorism.
April-May, 1991 - US seeks support for regional peace talks.
November 1991 - Madrid conference launches peace talks.
August 1993 - Israeli PM Yitzhak Rabin (top left) and Foreign Minister Shimon Peres (bottom left) open talks with PLO.

crossing into Jordan. It is also unclear whether Israel will agree to PLO interpretations of the agreement that as soon as the document is signed the PLO leadership, including Mr Arafat, will be able to relocate to either Jericho or Gaza.

Despite the doubts, however, the agreement may be different from the dozens of other peace plans that have littered the map of the Middle East - partly through its design, and partly as a result of the atmosphere in which it has been constructed.

Mr Arafat, in particular, has been

under intense pressure to strike a deal. As a result it was the PLO, bereft of powerful friends, crippled by internal dissension, mounting criticism from extremists, and a cash crisis, that played the key role in bringing both sides to a draft settlement.

From Mr Rabin's point of view, the deal is carefully crafted to deflect potential domestic criticism. Firstly, it leaves untouched the largest potentially hostile community - the estimated 120,000 Jewish settlers in the West Bank. The most directly affected settlers - the small community of 4,000 in Gaza - have

been told that they will eventually have to move.

Secondly, the agreement has no serious impact by Israel's borders or its security arrangements. Indeed, Mr Rabin can exploit widespread enthusiasm for getting rid of Israel's major security headache - the Gaza Strip, which has long been the scene of the worst Palestinian attacks against Israeli soldiers.

Thirdly, the Israeli public has become gradually accustomed to the government talking to the PLO - a move Mr Rabin argues was implicitly sanctioned by the previous Likud government at the 1991 Madrid conference.

Nor - despite mounting accusations of betrayal from the right yesterday - does Mr Rabin need to worry that the proposed deal poses a threat to his coalition. For the moment he has an unshakable majority in the Knesset of 67 votes to 53. Although his coalition is fragile owing to a continuing row with a small religious party, the Knesset coalition for peace is much more solid.

All these factors have led the government to believe it has a window of opportunity now to do a deal with relatively small concessions to the Palestinians.

Its attractions to the Israelis are many. It seems to contain PLO concessions on the ultra-sensitive question of who should control Jerusalem, long claimed by Israel as its "eternal and indivisible capital". Also, the autonomy arrangements for Gaza-Jericho provide maximum reassurance: although the Palestinians will have full internal powers over education, health, economic policy and housing over the estimated 900,000 population of Gaza-Jericho, Israel will continue to be the predominant authority by virtue of the enclaves' dependence on Israel proper. It is bound to exploit this economic dependence to the limit as a way of ensuring that the interim Palestinian authority toes the line.

But the agreement does have its attractions for the 64-year-old Mr Arafat as well. It appears to deliver a tangible and rapid step towards Palestinian self-rule. And it should allow the PLO to make a quick start in tackling the deteriorating conditions of Palestinians in the territories who have been drawn to the Islamic fundamentalism of the Hamas movement.

The challenge is herculean. If the PLO fails, Israel would have no reason to cede control over any more of the West Bank. If it succeeds in Gaza-Jericho, however, the Palestinian people may be on the road to claiming a respectable portion of its rightful inheritance.

But the agreement does have its attractions for the 64-year-old Mr Arafat as well. It appears to deliver a tangible and rapid step towards Palestinian self-rule. And it should allow the PLO to make a quick start in tackling the deteriorating conditions of Palestinians in the territories who have been drawn to the Islamic fundamentalism of the Hamas movement.

United in disunity

Mark Nicholson and Lamis Andoni on the Arab mood

Mr Ahmed Jibril's radical PFLP-GC and Hamas, which has been the main beneficiary within Gaza and the West Bank of the long stalemate in the peace process, muster the force to stop the proposal? The answer will be partly in the hands of the sponsors of these groups, who have a habit of playing the rejectionist card for their own ends - most particularly Syria and Iran.

Very little is ever clear about the strategy of Syria's President Hafez al-Assad, except that it involves patience and caution. But he has already shown willingness to rein in rejectionist groups his government sponsors in the interests of an eventual peace. The recent decision to lean on Hizbollah, the pro-Iranian and deeply rejectionist guerrilla group, after its attacks on Israel prompted a week-long bombardment of south Lebanon, was the most telling example - and seems to have cleared the air in the Syria-Israel peace talks.

But whether Syria would be prepared to act similarly with respect to groups such as Mr Jibril's is

unclear. Equally, there is doubt as to whether either Syria or Iran can decisively control rejectionist groups which have garnered increasingly strong grass-roots support in the occupied territories.

Mr Assad is not in a strong position to argue with them, given that many Palestinians see him as hastening to conclude a "separate peace" with Israel involving the return of all or part of the Golan Heights, captured by the Israelis in the 1967 war. The Syrian leader's repeated assertions that he has no intention of proceeding to a full peace with Israel without them do not cut much ice with Palestinians mindful of the violent history of their relations with Damascus.

Those who oppose the current peace plan argue that once a limited autonomy deal is concluded, Syria will move full-speed to a broad normalisation of relations with Israel. The result, say the critics, could be a matter of "Gaza-Jericho last" as well as first, with the Palestinians having to settle for exercising self-rule only in

those two small enclaves. Syria's attitude - and Jordan's, a country whose own peace deal with Israel is all but done - may also be influenced by the way the present proposal was reached substantially without their consultation. Some observers suggested yesterday that this could prompt both countries to take a harder line with Israel, partly so as to resist pressure to make greater concessions themselves. Both Amman and Damascus were notably muted yesterday in their response to the proposal.

Much will depend on the contents of an eventual "Gaza-Jericho" agreement. If it appears to open the way for direct linkage between an interim period of Palestinian autonomy and a final agreement - one which would address the still unresolved issue of the status of Jerusalem - it would be hard for either Syria or Jordan to hold out against the PLO-negotiated deal.

But if opposition to the deal deepens and widens, both within the occupied territories and among the hundreds of thousands of diaspora

Palestinians in Lebanon, Syria and Jordan, then Jordan, in particular, could decide to position itself for a broader agreement, giving it greater control over the occupied West Bank. Syria, too, might then decide that it cannot peg its own peace with Israel to an interim agreement which proves to have broad, grass-roots opposition among the Palestinians.

The key, in both cases, will be the degree of Palestinian opposition to the agreement. Many independent Palestinian groups, and even many in the mainstream Fatah group, have already voiced doubts about "Gaza-Jericho".

Mr Arafat will have to demonstrate to the Palestinian rejectionists that this deal will be tightly linked to a comprehensive settlement leading to a total Israeli withdrawal from the occupied territories, and recognising the right of diaspora refugees to return.

Whatever else the "Gaza-Jericho" proposal will achieve, it appears already to have shifted the fundamental axis on which the peace process will turn. As Mr Mohammed Sayed Ahmed, the Egyptian commentator, noted yesterday: "We are no longer looking simply at an Arab-Israeli confrontation - now the confrontation is within the Palestinian camp."

Black horse's uncertain bet

Now that Barclays has roundly trounced National Westminster, bringing in 41-year-old Martin Taylor, who beats Derek Wansley by four years in the chief executive youth stakes, the question of succession at Lloyds recurs, both men being a generation younger than Lloyds' 61-year-old boss.

Brian Pitman, a wise old bird who has avoided some of the obvious pitfalls of the last decade, will now have to retire, three years after the bank's retirement age.

Inside favourites as next-in-command include 51-year-old Paul Brown, and a talented linguist, now heading retail banking. Another front-runner, David Pirrie, three years his senior and in charge of international and private banking, was in 1986 tipped to run Standard Chartered but that eccentric bid gone through. John Anderson, boss of Lloyds' National Bank of New Zealand, is also thought to be in with a chance, even if his British banking experience is limited.

None, however, is a sure-fire custodian of Lloyds' daunting reputation as the UK's best-managed bank, so perhaps it is time to search the younger echelons. There are a couple of bright regional heads: Gordon Pell, 43, in charge of Thames Valley,

and Dennis Holt, 44, for the south-west. Or perhaps Michael Hephner, 49, who departed for British Telecom two years ago, could be lured back.

The real, but unlikely, trump would be a female candidate. Prominent as City regulators - think of Frances Heaton of the Takeover Panel or Rosalind Gilmore at the Building Societies Commission - women have yet to breach the formidable terrain of the senior clearing bank hierarchies.

Nor is the current fad for ex-journalists - Taylor but also Rupert Pennant-Rea - a rich vein. Sarah Hogg, ex-Telegraph journalist turned Number Ten policy unit head, was an outsider as the next Bank of England governor, but running number three of Britain's "big four" clearers might be a come-down for one sometimes assumed to be running the country.

Saint Deng

Which would leader watched 50 of the 52 matches televised in the 1990 soccer World Cup, is an avid bridge player and saw his son paralysed by being thrown out of a window by his own guards? Despite his public disapproval of the cult of personality, Deng Xiaoping, China's paramount leader, has allowed the Chinese tabloids to publish an account of the life of someone still alive to be infringed with the publication

OBSERVER



"Do you have to bring your work home with you?"

of his biography. Written by his daughter, Deng Rong, it is now being serialised in mass-circulation Chinese newspapers.

But Rong's rose-coloured prose allows for no hint of scandal in her beloved father's life. She provides some details of his student days in France - where he developed decidedly bourgeois tastes for wine, cheese, coffee, bridge and his life-long interest in soccer - and in Moscow.

Deng had three wives; the first died in childbirth in 1930, the second left him after a political disagreement in 1933, and the third, whom he married in 1939, produced five children. Rong is the youngest.

Having just turned 89, his "meeting with Karl Marx" cannot be far off; the tone of the book suggests that Deng is moving from the realm of deity being towards communist sainthood.

Grecian 900

Bosnian Serb leader Radovan Karadzic, whose troops control about 70 per cent of Bosnia, is not a name usually identified with peace and ethnic harmony.

So some surprise to see that the Greek Orthodox Church has appointed him a member of the 900-year-old Knights' order of the first rank of Saint Dionysius of Xanthi for "his contribution to peace in the world".

However, the medal probably says more about the Greco-Serbian alliance than Karadzic's contributions to humanity.

Serbian president Slobodan Milosevic, a close friend of Greek prime minister Mitsotakis, who has lobbied for his Slavic neighbour, is planning to visit Greece early next month.

Risky business

Glad to hear bassoonist and economist Bill Robinson has found another opportunity to earn a crust, three months after losing the last one as special adviser to Norman Lamont.

Robinson starts work tomorrow with London Economics, run by John Kay and Nick Morris, where his main task will be to extend the consultancy's established reputation in microeconomics into the macro arena.

So how is the jobs market for former advisers to sacked chancellors? Working in a think tank did not appeal - "I've done that before at the Institute of Fiscal Studies," says the ever-affable Robinson. And talk of working in three City firms "did not work out".

Meanwhile, will London Economics's corporate clients be prepared to pay good money for forecasts of inflation rates and trade deficits?

"We want to develop techniques for macroeconomic risk management," he says. "People are a bit disillusioned with forecasting."

Unchristian

A burglar rifling a house was suddenly surprised by a voice saying: "Me and Jesus are watching you." Frightened, the burglar swung his torch round desperately until he spotted the culprit, a parrot.

Recovering his composure, the burglar asked the parrot what it was called. "Trugen," replied the parrot. "That's a silly name for a parrot," said the burglar.

"Not half as silly as calling a rottweiler Jesus," chirped the bird.

London, Agent Bank

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By Citibank N.A. (Incorporated in the USA)
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FINANCIAL TIMES

Tuesday August 31 1993



Bold initiative demanded to rescue monetary and economic union

Delors issues Maastricht warning

By David Gardner in Brussels

MR Jacques Delors, president of the European Commission, has issued a new call to arms to the partisans of a federal European union. He warned that unless a bold "new initiative" emerges quickly, the Maastricht treaty and its envisaged economic and monetary union will be a dead letter.

"Why should we hide it? If we go on like this, there will be no convergence in economic policies and, consequently, no single currency. The commitments in the Maastricht treaty will come to nothing," Mr Delors told a week-end meeting of his French Socialist supporters in Brittany.

The Commission president, politically bruised by the year-long delay in ratifying Maastricht and the damage to the credibility

of the Emu project caused by this month's near implosion of the European exchange rate mechanism, warned that Europe faced sinking into decline through "the absence of a broad and long-term vision".

"This risk is so obvious in the light of Europe's powerlessness that one might well expect a startled rebound on the part of certain heads of state and government," Mr Delors said, in implicit reference to the hopes now placed in the EC's traditional Bonn-Paris axis to get European integration back on the rails.

The Commission president's wide-ranging speech was more analytical than prescriptive, peppered with references to the "myopia and insouciance" of some nationalist and "ultra-liberal" EC governments which he said saw Europe merely as a

giant free trade zone. He derided the embryonic common foreign and security policy contained in Maastricht as a racing car with a two-stroke engine, incapable of handling a crisis like Yugoslavia, even if a joint foreign policy structure were already fully functional.

He said that the EC's classic strategy of "small steps forward" had "reached its limits", and that the time had come "to spell out the political Europe that we want". This, he said, was "the federal approach, which alone sets limits to the powers of European institutions, and guarantees the powers of the nation-states and regions".

On Emu, he insisted there was no remedy in reorganising the ERM, "even if that in itself would be welcome". The real danger was in allowing further delay.

This remark squares with the EC's formal agenda of getting the second stage of Emu - with a European Monetary Institute as forerunner to a European central bank - set up by January. But some observers and colleagues yesterday saw Mr Delors' call as encouragement for a mini-Emu, with the EC's harder currencies grouping in close monetary cooperation around the D-Mark, to prevent the project evaporating.

Mr Delors' aides said his speech was a broader plea for a relaunch this autumn of EC integration. But officials from EC Christian Democrat parties say that talks on how to forge close monetary co-operation between Germany, France and the Benelux countries began in the margins of the August 2 meeting which decided to loosen the ERM fluctuation bands to 15 per cent.

Alphandéry says France will retain tight monetary policy

By David Buchanan in Paris

THE French government yesterday suggested - in highly qualified terms - that its cautious monetary policy was helping to stabilise the economy, despite the news that unemployment rose further to 11.7 per cent in July, from 11.5 per cent the month before.

Mr Edmond Alphandéry, the economy minister, claimed that "the hypothesis of [the economy] emerging from the tunnel [of recession] at the end of this year or at the latest at the start of 1994 is far from unrealistic".

In his interview with La Tribune newspaper, the minister, evidently chastened in his public pronouncements by the recent monetary storms, said that after the rate of decline in industrial

production had slowed in the first half of this year, "to all appearances, we are therefore now at the bottom of the cycle, at a weak level of economic activity".

But with long-term interest rates still slightly below those of Germany, and short-term rates again finding their pre-August crisis level, the minister said the government had no intention of "changing the direction" of its economic and financial policy.

The one lesson to draw from the recent crisis of the European exchange rate system was that "economic convergence is a precondition for monetary convergence", Mr Alphandéry said, in a marked shift from the position held by previous French ministers during the Maastricht treaty negotiations.

France's conversion to the necessity for convergence with Germany was reflected, Mr Alphandéry said, in the decision by Bonn and Paris to work together in preparing medium-term budgetary plans.

Despite the claims of ministers to see light at the end of the economic tunnel, the government itself has forecast that unemployment will keep rising until early 1994. It has moved to improve the cash position of companies by refunding their VAT payments more quickly, but most are reluctant to hire new workers until they see real evidence of a pick up in consumer demand.

Mr Alphandéry said there was now evidence of improvement in the beleaguered construction sector, but admitted many sectors were still in recession.

People's Daily turns to the party to lift sales

By Tony Walker in Beijing

CHINA might be embracing market socialism with Chinese characteristics, but the rigours of the marketplace are not for the People's Daily, the Communist party newspaper.

Alarmed by a steep slide in the paper's circulation, the party has come up with a characteristically communist solution to the daily's woes.

Party officials throughout China have been urged in a directive to "pay attention" to the paper's circulation.

The directive, published prominently on the daily's front-page, orders "all party branches" throughout the country to subscribe. It requires that the newspaper be at the top of subscription lists for all government organisations, and instructs post offices to promote the paper.

Under the headline "People's Daily circulation must go up", officials have been told that, "to promote and circulate the People's Daily must be taken as a serious political task instead of regular commercial work".

The party newspaper, which features a stodgy diet of political commentaries and uplifting news, has been facing ferocious competition from a flood of new publications, including brighter and breezier tabloids. Circulation has plummeted from a high a few years ago of about 6m copies to less than 3m today. "People's Daily is the throat and tongue of the central committee and of people of all nationalities," said the directive. "It is one of the main channels that the cadres and broad masses learn about the spirit of the central committee and the State Council [cabinet]. It is also an important window through which the outside world observes and understands China."

Israel agrees to peace deal

Continued from Page 1

Mr Peres said yesterday Israel could now recognise the PLO as part of the deal if the organisation completely renounced violent acts and gave up parts of its charter calling for the extermination of the Jewish state.

Once signed, the deal could trigger progress on three tracks of stalled bilateral peace talks between Israel and Syria, Jordan and Lebanon.

In Israel both Israeli and Palestinian extremists accuse the leaders of betrayal. Rightwing parties in Israel's parliament heckled Mr Peres yesterday as he tried to explain the peace package and last night up to 2,000 rightwing demonstrators protested outside the cabinet meeting.

Rightwing settler leaders pledged themselves to a programme of civil disturbances and warned of more violent action.

France criticised over stance on world trade

Continued from Page 1

predicted. The round was launched in 1986, but stalled in 1992 because of EC-US conflict on farm trade reform.

The French push follows a meeting last week between Mr Edouard Balladur, France's prime minister, and Chancellor Helmut Kohl of Germany, when Mr Kohl appeared to endorse France's call for renegotiation.

German officials have been at pains since then to insist that the German leader's comments were misinterpreted. But the confusion in their wake has led to speculation that the EC might be forced to renegotiate a deal that took a year to negotiate.

Mr Peter Sutherland, the new director general of the General Agreement on Tariffs and Trade, is expected to give a clear but coded signal to France to modify its position when he kicks off the

autumn negotiations at a top-level trade negotiations committee in Geneva today. He will call for governments to exert political leadership in the face of pressure from lobbies.

Senior officials in Mr Kohl's office yesterday reiterated that Germany did not seek formal renegotiation of the US-EC farm agreement. They said the government was aware that Blair House could not be renegotiated, even in parts, without putting the Uruguay round at risk.

A spokesman said the Blair House accord had "neither been signed nor finally signed... It is of great importance that this agreement is compatible with the EC common agricultural policy." Mr Sutherland will meet Mr Kohl in Bonn tomorrow to seek clarification of last week's comments. A meeting with Mr Balladur is scheduled for next Wednesday.

THE LEX COLUMN

A gamble at Ladbroke

Given the financial strains on Ladbroke, it is worth asking whether the board would be wise to choose between a rights issue and a dividend cut with its interim figures this week. Balance sheet gearing and total outstanding debt are both uncomfortably high, while potential disposals would fetch little more than book value and cut gearing only marginally. A rights issue would bring greater comfort to the company's finances.

On the other hand, the dividend is clearly out of line with the underlying trading prospects of the group. If the company were to follow Fort's lead, it would cut its dividend to a sustainable level, then try to regain credibility with the market before deciding how to proceed. Certainly attempting a rights issue while the threat of a dividend cut was still in the air would make many institutions gag - all the more so if it were below the level of the 220p issue in 1991.

Then again, Ladbroke's chairman, Mr Cyril Stead, is proud of his unbroken dividend record over a generation. He will be loath to spoil that in the latter part of his career. The temptation will be to soldier on until things improve. That, however, will mean more shareholder value leaking away to the banks through high interest charges. Perhaps the company might risk further market displeasure by cutting the cash outflow of dividends and sneak in a mini-rights issue through another enhanced scrip dividend. It may even be tempted to follow the lead of Bank and roll the full-year dividend into the interim as a larger enhanced scrip. With Ladbroke's high yield, however, that would mean adding more than 10 per cent to the equity which needs to be serviced in future years.

Gilts

After their decline of more than a full percentage point this summer, it seems nothing can stop long-gilt yields falling further. Not only has recovery got under way at home without rekindling inflation; the climate also looks unusually positive abroad. US bonds have been boosted by dwindling inflationary fears, while in Europe the Bundesbank stands determined. Its reluctance to cut its discount rate does not help short-dated European bonds, but, by damping inflationary expectations, it does maintain downward pressure on long-term yields.

A sense that the UK may have beaten inflation, too, has reduced the



yield premium international investors traditionally demand to hold gilts. This has happened just when long-term rates are anyway falling elsewhere. The Bank of England has further helped by restricting supply to the long end of the gilt market so that UK institutions are short of paper.

In theory, there could be room for further gains if inflationary expectations are poised to settle at 3 per cent or even less. Real rates could fall as uncertainty abates, a development which would benefit index-linked as well as conventional gilts. Just the same, the fact that the market has continued to advance amid diminishing expectations of tax increases in November suggests an air of unreality. Not just in the UK, but around the industrialised world, government finances are in a mess. Bond markets are in dangerous territory when they start believing that does not matter.

UK pharmaceuticals

There have been false dawns before during the great derating of the pharmaceutical sector. But recent gains against a rising stock market suggest that drug stocks are at least attracting bargain hunters. Since the outlook for the industry has barely changed, there is no obvious reason for a renewed burst of optimism. Although President Clinton's healthcare reforms look unlikely to include direct price controls, the concentration of power among big buyers of healthcare is having the same effect. The worst of the pain arising from reform in Germany and Italy may be over, but France and Spain have yet to show their hands.

The question, then, is whether drug shares offer fair compensation for the continued risk of government intervention. Earnings growth will cer-

tainly be below the heady levels of the 1980s, and little better than that achieved by other industries during recovery. Price earnings multiples below the market average now reflect that. More importantly given the dwindling returns on cash, Glaxo and Zeneca yield more than the market average. With a good record of cash generation, and a large cash pile in the case of Glaxo, dividend growth looks assured.

If investors are starting to look at drugs companies in terms of total returns rather than just earnings growth, the recent rally in the shares may have further to run. The fog of uncertainty should clear when the details of President Clinton's reforms are unveiled in the autumn. But while the industry reshapes to accommodate whatever new world order appears, it would not do to expect too much.

UK regulation

The news that the Securities and Investments Board is looking again at regulation of the UK equity market is certainly welcome. After the controversy over market manipulation and the degree of control exercised by SG Warburg during the BT3 issue, some clear and widely accepted guidelines need to be established before further large equity issues come to market.

Yet the SIB and the Stock Exchange seem to have retained the leisurely approach which led to the BT3 problem in the first place. Almost a year elapsed between the Wellcome and BT3 issues during which time little was agreed. Now the SIB has given itself until the turn of the year to produce a wide-ranging discussion document, while the secondary offer of the generators' shares may well take place in the spring. The Stock Exchange, which scarcely covered itself in glory over BT3, is now not prepared even to venture an opinion on the subject.

The self-regulatory framework has attracted great criticism, and practitioners must now prove that they have something to add to the operation of the system. If some of the simpler problems cannot be quickly resolved, inefficiency may be added to the charge of ineffectiveness. Utility regulators work reasonably well without the presence of water or electricity company chief executives on their panels. The time is fast approaching when the financial services industry will have to demonstrate why it is so very different.

August, 1993

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This relocation is the first of a phased schedule and other London units will be moving to 125 London Wall throughout September and October.



FT WORLD WEATHER

Europe today

Scandinavia will be mainly cloudy with outbreaks of rain over Norway. Afternoon readings will be below normal, ranging from 8C in the north to 17C in the extreme south. Eastern Europe will be rainy and unseasonably cold under a low pressure area. As the low heads east, cooler air will move into the Balkans with a local shower in the north. The British Isles will have sunny intervals as high pressure builds over the region. The Low Countries, Germany and northern France will have a mixture of clouds and sunshine with moderate temperatures. Southern Europe will be mainly sunny and warm, with temperatures reaching 35C in the southwest of Spain.

Five-day forecast

Low pressure will remain over northern and eastern Europe. As a result, it will be mainly cloudy with outbreaks of heavy rain at times. Unseasonably cool conditions will prevail until this weekend. The British Isles, the Low Countries and northern Germany will have some sunny intervals, but also showers, especially later this week. Afternoon readings will be below normal. South-western Europe will be mainly sunny and dry, but south-eastern Europe will have thunder storms at the end of the week.

TODAY'S TEMPERATURES

Abu Dhabi	sun 32	Belfast	fair 20	Cardiff	fair 21	Frankfurt	cloudy 20	Malta	sun 29	Rio	cloudy 24
Alexandria	sun 32	Belgrade	fair 23	Chicago	thund 23	Geneva	fair 21	Manchester	fair 20	Riyadh	fair 42
Algiers	sun 32	Berlin	rain 16	Cologne	thund 18	Glasgow	cloudy 18	Manila	shower 31	Rome	sun 26
Amsterdam	cloudy 18	Bombay	cloudy 30	Dakar	thund 31	Hamburg	fair 17	Mexico City	shower 19	Sao Paulo	shower 28
Athens	sun 28	Buenos Aires	cloudy 30	Dallas	cloudy 31	Helsinki	cloudy 13	Miami	thund 32	Singapore	shower 31
B. Aires	sun 28	Brussels	fair 18	Hong Kong	fair 31	London	fair 18	Montreal	fair 21	Sri Lanka	fair 31
Bahia	sun 24	Budapest	thund 15	Istanbul	sun 40	Honolulu	fair 24	Moscow	cloudy 13	Sydney	fair 18
Bangkok	rain 32	Cairo	sun 40	Jakarta	sun 25	Jersey	fair 18	Munich	fair 18	Taipei	fair 28
Barcelona	sun 37	Cape Town	sun 19	Kuala Lumpur	cloudy 25	Karachi	cloudy 33	Nairobi	cloudy 25	Tel Aviv	sun 37
Beijing	fair 29	Caracas	shower 30	L. Angeles	fair 28	Kowloon	sun 28	Nassau	sun 27	Tokyo	fair 28
				Las Palmas	sun 31	Madrid	sun 30	New York	sun 31	Toronto	shower 25
				Lima	cloudy 21	Manila	sun 28	Nice	sun 23	Vancouver	sun 24
				Lisbon	fair 32	Medan	sun 32	Nizhny Novgorod	sun 38	Venice	shower 28
				London	fair 21	Mexico City	fair 17	Oso	fair 17	Vienna	shower 15
				Luxembourg	cloudy 19	Paris	fair 21	Perth	rain 17	Washington	sun 32
				Lyon	sun 22	Prague	rain 14	Wellington	sun 12		
				Madrid	sun 31	Rangoon	rain 30	Winnipeg	fair 20		
				Malaga	sun 30	Reykjavik	rain 14	Zurich	fair 18		

Forecasts by Meteo Consult of the Netherlands

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Lufthansa
German Airlines

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INSIDE

RTZ near to sale of Nerco assets

RTZ Corporation, the world's largest mining company, is putting the finishing touches to the sale of assets acquired only in June when it bought Nerco, the US natural resources group. Page 16

New chairman for GPA

Mr Dennis Stevenson, chairman of SRU Group and the Tate Gallery, is expected to take over as chairman of a restructured GPA Group. Page 16

Swiss Re moves to catastrophes

Swiss Reinsurance, the world's second largest reinsurance group, has joined with John Head & Partners, a New York merchant bank specialising in the insurance field, to form Partner Reinsurance, which will specialise in natural catastrophe insurance. Page 17

CBOT clearing head quits

Mr Roger Rutz, president of the Chicago Board of Trade Clearing Corporation has resigned after 10 years at the head of the Chicago exchange's independent clearing organisation. Page 17

Atlas Copco up despite sales fall

Atlas Copco, the Swedish industrial components group, said lower interest rates and exchange rate gains contributed to a 12 per cent rise in first half profits, despite a substantial fall in sales. Page 17

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 15.6 according to IBES, the consensus estimates service. This compares with an IBES estimated p/e for the "500" of 20.6 for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 20.45 (20.19 last week).

Market Statistics

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Chief price changes yesterday

FRANKFURT (DM)	PARIS (FF)	TOKYO (Yen)
Rises	Rises	Rises
BASF	544.5	3
Daimler-Benz	745.5	13
Sad Chemie	450	14
Falls	Falls	Falls
Dowling	558	6
Leontop-Hell	373	25
Reinhold-Welt	291	28
NEW YORK (\$)		
Rises		
Intel	64.5	1
Lotus Dev	32.5	1
Motorola	96.5	1
San Jose	29.5	1
Falls		
Ford Motor	51.5	1
Gen Motors	46.5	1

UK closed. New York prices at 12.30.

Hoechst falls 31% on weak demand

By Christopher Parkes in Frankfurt

HOECHST, the big German chemicals group, yesterday blamed a 31 per cent slump in first-half earnings on weak domestic demand and restructuring costs.

The German parent company recorded an unspecified operating loss, while its pre-tax profit fell by almost 50 per cent to DM342m (\$202m) the group said yesterday.

Business had continued to be weak in the first two months of the second half, and there were no signs of improvement. Forecasting a "very difficult" six months ahead, it said cost-reduction and rationalisation measures would continue at speed.

Group pre-tax profits of DM781m for the first half were worse than expected by most analysts, but fitted the pattern established last week when rival chemicals groups Bayer and BASF reported pre-tax declines of 20 per

cent and 50 per cent respectively. All have been hit by low demand, weak prices, the effects of health service spending cuts in Germany, and adverse movements in foreign exchange markets.

Hoechst said that more than a third of its 2.4 per cent sales decline in the first six months to DM22.9bn was due to currency movements and lower prices.

In the US, Hoechst Celanese reported a 6 per cent sales drop to \$3.1bn, attributable to lower

volumes in pharmaceuticals markets and the effects of last year's sale of its polyethylene business. In Germany, the company said, its healthcare business was hit by an overall 6 per cent fall in pharmaceutical sales.

Turnover in the European Community, which accounts for almost half annual sales, dropped 10 per cent.

While government and economists claim the domestic recession bottomed out in the second quarter of the year, Hoechst's fig-

ures showed the situation worsening. In the three months to the end of June the group earned DM345m pre-tax, down 34 per cent on the comparable period of 1992. It blamed further deterioration in home markets, which had cancelled out an overall improvement in foreign business.

First-quarter earnings of DM436m were 28 per cent lower on the year.

Group-wide restructuring had reduced personnel costs by 2 per cent against a year earlier.

John Gapper finds currencies, bonds and equities combining to give good profits

Securities firms enjoy a year of living easily

This year has been so good for the securities industry that it has tested Mr Mark Houghton-Berry's faith in an old adage: "There may be no such thing as a free lunch, but this one has at least been heavily subsidised," he says.

Mr Houghton-Berry is head of bond trading at Goldman Sachs in London. For nearly a year, he has watched foreign exchange, equity and bond markets combine to provide international banks and securities houses with one of their most profitable and least risky trading environments for a decade.

The results have become evident in Europe and the US over the past month, as banks have reported large rises in income despite subdued lending business. The US house Morgan Stanley is the latest beneficiary, disclosing record second-quarter profits of \$24.2m, driven by a huge leap in trading.

The US securities firms have not been alone. The European universal banks have offset large bad debt provisions and sluggish lending with dealing income. Swiss and German banks have benefited, while among UK banks Barclays made £234m on the £1.3bn in capital in its BZW securities business.

"It is unusual to have equities and bonds going strongly at once. Usually you expect one or other to be firing, but we've had both," says Mr David Band, BZW chief executive. While much public attention has been on foreign exchange, securities trading has been at least as strong.

The industry has benefited from a mix of short, medium and long-term trends. The near-col-

lapse of the European exchange rate mechanism created currency volatility, falls in European interest rates led to a bonds and equity rally, and the shift towards lower inflation sparked a "search for yield".

This has created a series of effects that have helped banks and securities houses. Reversing of equities and rising bond prices have all led to large amounts of trading on behalf of customers. "Volumes have been high in continental Europe and the UK, and a lot of US money has flowed this way," says Mr Michael Sargent, head of equities at SG Warburg, the British investment bank.

Mr Band says equities trading has been boosted by switches in asset allocation caused by political uncertainties and the shift in European interest rates. "As long as political paths are not clear, institutions can change their big picture views of the world quite a lot, and quite rapidly," he says.

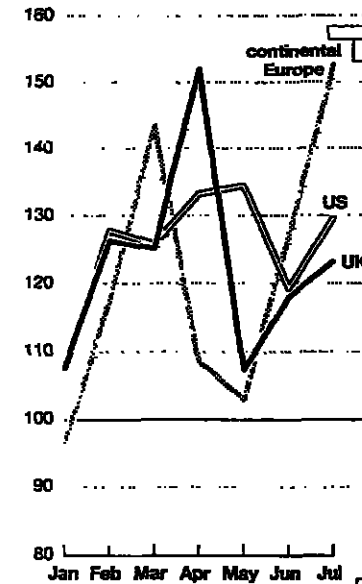
The breakdown of currency and interest-rate stability has led to demand for risk management services, as companies seek ways of hedging risks through derivatives. "They are becoming aware that we can sell them insurance," says Mr Michael Davis, a senior vice-president at Chase Manhattan in New York.

As interest rates have fallen, companies have issued bonds and even equity to re-finance higher interest bank debt. This has been good for the "bulge bracket" Wall Street firms that have picked up higher-margin equity origination business as well as the tighter-margin distribution of bonds.

Integrated securities houses with the capacity to design and

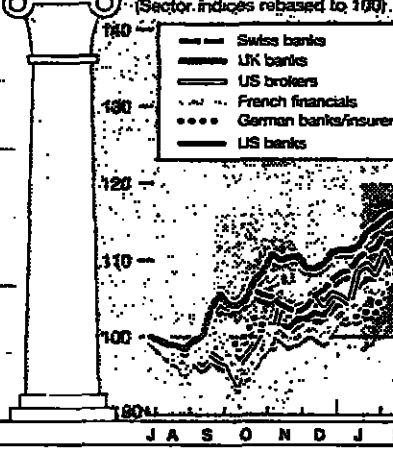
Stock market trading volumes

(100= average volumes Jan-July 1992)



Bank and financial stocks

(Sector indices rebased to 100)



sell over-the-counter derivatives have been able to stimulate business through what Mr Band calls "reverse origination". This means designing a product to suit investors, and using swaps to translate it into a form that attracts debt issuers.

This has helped increase debt issues by companies which do not have a pressing need to re-finance, but are attracted by the chance to "lock in" lower interest rates. Derivatives have given companies of all sizes more access to debt markets, so adding to the shift away from traditional bank finance.

The size of the market for equity and debt has been raised by privatisation of state assets both in west and east Europe. French bank privatisation this autumn follows Warburg's handling of the BT3 share offer, and the growing sale of assets from former communist countries.

These trends have allowed large trading profits, which have been underpinned by the emergence of positive yield curves - higher yields for long-term than

short-term bonds - in Europe. A positive yield curve in the US led to banks investing their short-term liabilities in longer-term government bonds.

The shift towards similar conditions in Europe raises the question of how much risk banks and securities houses have taken on through proprietary trading in addition to handling customers' business. Most participants agree that market buoyancy has led to a rise in proprietary trading.

Mr Houghton-Berry says that proprietary trading has been encouraged by the narrowing of margins on client business, and customers wanting to know whether a bank is confident in its own market view. "Firms are increasingly being asked to put their own money where their mouth is," he says.

This in turn means that firms will be exposed to more risk when the exceptional market conditions turn down. The easiest profits have probably passed, since currency volatility is now

easing. Yet a longer-term shift to lower interest rates would provide good trading conditions for bonds and equities.

Mr Rod Barrett, an analyst at Goldman Sachs in London, says the market cannot carry on forever, but may have some way to go yet. "Maybe we will have another year of it, who knows?" he says. "Eventually if rates settle down, the market will adjust to a trading range, and things will get quieter."

A gradual tailing-off of exceptional profits would be the best outcome for the industry. The alternative would be a sharp reversal of inflationary expectations or interest rate trends that would expose firms to losses on their proprietary trading positions in equities, bonds or derivatives.

"The easiest money has been made already. Sooner or later there will be a correction and someone could come unstuck," says Mr Houghton-Berry. Even if he retains the subsidy on his own lunch, others could yet end up paying for theirs.

Five TNT directors quit after split on strategy

By Bruce Jacques in Sydney

TENSIONS at the top of TNT, the Australian transport group, spilled over into a boardroom split yesterday with the abrupt resignation of five directors, including the company's founder and former chief executive, Sir Peter Abeles.

TNT chairman, Mr F. W. Millar, indicated yesterday that the resignations reflected disagreement over strategy for the company which has racked up losses, including write-offs, totalling more than A\$260m (\$175m) in the latest two reporting years.

Further heavy losses are likely when the company reports for the latest year, ended June.

Mr Millar said TNT's strategy for the past year had been very clear, following agreement by the then board early last financial year.

"It concentrates on improving operating earnings, selling non-core assets and reducing debt," he said.

"It focused management's efforts on our very strong core transport businesses."

"The directors who resigned sought a change in that strategy. That change was not adopted by the board."

"I regret the resignations, but I must say that management can now proceed to implement the continuing strategy with confidence."

Analysts said yesterday that Sir Peter and the other resigning directors were believed to be pushing for a more expansionary strategy, possibly involving a renewed increase in the company's debt levels.

It was heavy debt and rapid expansion that pushed the company close to failure in 1991. Observers further speculated that Sir Peter's continued presence on the board since stepping aside as chief executive last September may have sat uneasily with the new chief executive, Mr David Mortimer.

The other resigning directors are Mr Christopher Spörborg, deputy chairman of Hambros Bank, the UK merchant bank, Mr John Landerer, Mr Evan Cameron and Mr Gilles Kryger. TNT shares added 5 cents to A\$1.27 yesterday.

Mr Millar said the directors would soon consider board replacements.

GREAT battles are often followed by a phoney war, and such has been the case in the European exchange rate mechanism.

The dramatic events that ended in the early hours of August 3 in the widening of ERM fluctuation margins to 15 per cent gave way to an eerie calm in exchange markets and a deafening silence about the future of the system from policy makers.

But new realities are slowly taking hold. The Bundesbank's decision last Thursday to leave its discount rate unchanged at 6.75 per cent and its action on Friday setting a short-term "repo" rate at 6.9 per cent against 6.8 per cent previously were blows for those who believed that the ERM might be able to count on falling German interest rates for quieter times ahead.

The idea that former "hard core" ERM currencies such as the French franc, Danish krone, Irish punt and Belgian franc might be able to move back within a 2.25 per cent range against the D-Mark is implausible for the time being at least.

The Bundesbank made clear last week that it would use the freedom of the wider hands to strengthen its fight against domestic inflation.

Last week's public flexing of the Bundesbank's muscles merely confirmed the reports that have seeped out of meetings of July 31 and August 1 of a brutal crushing of French monetary aspirations.

France opened the discussions in the European Community's monetary committee on July 31 with demands that the Bundesbank should intervene unconditionally, intramarginally and on its own account to keep the franc in the 2.25 per cent range. France also urged an immediate cut in Germany's repo rate to be followed by reductions in official interest rates as soon as the Bundesbank's decision-making council could meet.

An eerie calm as new realities of the ERM sink in

It is unclear whether the French negotiators truly believed the Bundesbank would acquiesce to their demands.

If they did, they were quickly disabused of the idea. Mr Hans Tietmeyer, the Bundesbank vice president and president designate, interrupted Mr Jean-Claude Trichet, the head of the French Treasury and monetary committee chairman, as he enumerated the French proposals with the observation that France had forgotten one item: that Germany abandon the

Bundesbank president on October 1 had been confirmed and he was well clear of any possible move by Bonn to curb his room for manoeuvre.

But there were also practical reasons for yielding to market pressures and moving to a 15 per cent ERM fluctuation band for all currencies except the D-Mark and Dutch guilder.

The flow of funds out of the French franc at the end of July was unprecedented. The ERM was preceded by exchange controls in most member states when it started operating in

Economics Notebook

By Peter Norman

D-Mark and its monetary sovereignty

Mr Tietmeyer's emergence as the hard man of the Brussels talks lends credence to reports that circulated shortly after the first great ERM crisis of September last year. It was rumoured among highly-placed European monetary officials that Chancellor Helmut Kohl had warned Mr Tietmeyer that he could forget about becoming Bundesbank president if the Franco-German currency link were broken.

The old D-Mark-French franc parity survived successive crises that included the departure of sterling and the Italian lira from the ERM and the devaluations of the Iberian currencies and Irish punt.

March 1979. The past year showed that it was no longer capable of dealing with the pressure of deregulated international currency trading.

In the light of recent circumstances, it is no surprise that policy makers are still somewhat shell-shocked and disinclined to advocate new steps to reform or restore the old system. Conversations last week with monetary officials in Germany and some of Germany's neighbouring countries revealed an almost universal rejection of the idea of moving rapidly back to 2.25 per cent fluctuation margins for the ERM.

Pride and embarrassment are contributing to a do-nothing approach. Last September's crisis spawned two official reports - one from the EC central bank governors' committee and the other from the EC

monetary committee - which concluded that the ERM was broadly sound.

Those reports, which look ridiculous today, were the result of lengthy horse trading among officials which eliminated all but the blandest remarks from the final texts. Officials do not want to reopen old wounds with a thoroughgoing examination of recent ERM developments.

But inaction may not be a sustainable policy. The quest for European Monetary Union will not go away despite the past year of crisis in European exchange markets. Even ERM sceptics among continental policy makers are uncomfortable with a monetary free-for-all which could easily subvert the EC's single market.

One central banker last week suggested that the Maastricht convergence criteria for low inflation, government debt and interest rates could be used to guide EC member states back towards the narrow bands in the coming years after which they could move swiftly to ERM.

The financial markets are a more pressing issue. August has been quiet because many speculators went on holiday after banking huge profits from the ERM débacle.

Market operators return in force this week for the "autumn term". The reluctance of France and Germany's ERM satellites to cut their most important interest rates and stimulate their recession-hit economies in the past weeks will be the subject of as much critical scrutiny as the Bundesbank's determination to maintain its tight monetary policy.

Few of the expectations that followed the most recent ERM crisis have been fulfilled. That means new speculative activity could easily get underway, particularly in the run up to the annual meetings of the International Monetary Fund and World Bank at the end of September.

Thornton to purchase Aetna unit trust arm

By Paul Taylor in London

THORNTON, the UK fund management group owned by Dresdner Bank, plans to acquire Aetna UK's unit trust business in a move which signals further consolidation in the retail investment fund industry.

The group, which is chaired by Lord Peter Walker, the former Cabinet minister, is expected to announce a deal under which it will pay £13m (\$19.24m) for Aetna UK's unit trust operations which have £240m under management.

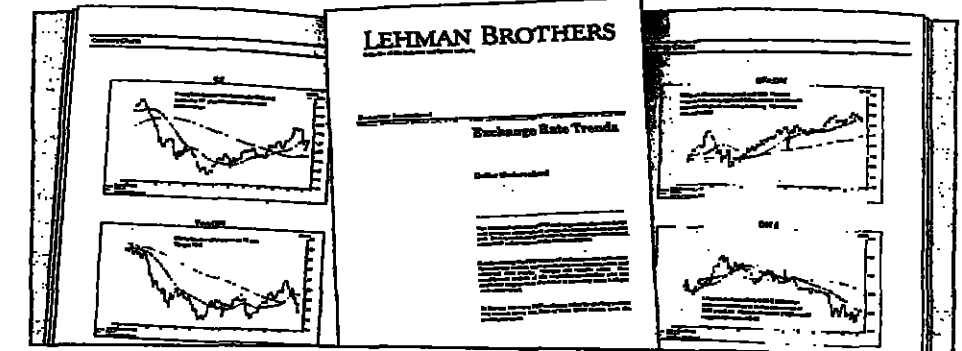
The deal, which is expected to be announced once due diligence investigations are completed, will lift Thornton's total funds under management to above the £1bn mark.

Negotiations are understood to have been completed, however Lord Walker, who was brought in by Dresdner two years ago to restructure and expand the business, said yesterday he could not divulge details until the due-diligence process was complete.

The deal would be Thornton's biggest purchase since it was acquired by Dresdner in 1983 and another important step towards its goal of becoming a leading investment group.

If confirmed, the £13m price tag on the deal represents about 5.4 per cent of funds under management. This compares with the £2.5m paid by Edinburgh Fund Managers when it acquired the 10 unit trusts of Target Life Assurance Company in January - equivalent to just 2.25 per cent of the £110m in unit trust funds under management.

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COMPANY NEWS: UK

Sale of RTZ's Nerco assets to fetch \$600m

By Kenneth Gooding,
Mining Correspondent

RTZ CORPORATION, the world's biggest mining company, is putting the finishing touches to the sale of assets acquired only in June when it bought Nerco, the floundering US natural resources group, and says total proceeds will be about \$600m (\$405m).

That compares with RTZ's outlay of \$470m, plus the assumption of \$692m debt when it bought Nerco which was 82 per cent owned by PacificCorp of the US. Also, RTZ's cash outlay was reduced to \$245m by a loan from PacificCorp to be repaid from Nerco contract revenues.

One of the outstanding details RTZ previously held back concerns the expected proceeds from the sale of the Con gold mine in Canada's North West Territories. However, it now says it expects this will bring at least \$25m.

When RTZ first announced in February that it was negotiating to buy Nerco it made clear that it wanted only Nerco's coal operations in the Powder River Basin in Montana and Wyoming.

Morgan Stanley, the investment bank, was retained to offload Nerco's oil and gas interests and definitive agreements for their sale to two US energy groups, Western Gas Resources and Louisiana Land and Exploration Company for a total of \$510m were announced in July.

Even before that, arrangements had been made to sell Nerco's gold and silver mines - which Nerco had previously decided to put on the market.

Minorco, the Luxembourg quoted overseas investment arm of the Anglo American Corporation of South Africa, is paying \$21m cash for Nerco's Pikes Peak Mining Company which owns 80 per cent of the Cripple Creek mine in Colorado. And Kinross Gold, a US group, is paying \$16.8m cash for the Delamar gold-silver mine in south-west Idaho and the Candelaria silver mine in western Nevada.

RTZ says negotiations are in progress about the sale of the Con gold mine to Red Lion Management, a private Vancouver-based conglomerate controlled by Mr Walter Berulko. Red Lion has arranged to sell on the Con mine to Miramar Mining, another Vancouver company. Red Lion says it exercised its option to buy the Con on August 15 and has 60 days from that time to complete the acquisition.

RTZ also expects to raise \$90m from the sale of its Pillar industrial division, mainly to MB-Caradon, which, with the Nerco disposals, will reduce the group's gearing to 14 per cent compared with the 63 per cent to which it briefly rose after the Nerco acquisition.

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Pressure to switch from appliances

Michael Smith looks at allegations that power companies subsidise their retail arms

COMPANIES in any other industrial sector would have been tempted to call it a day.

Year after year UK electricity companies and their predecessors have struggled to make significant profits on their retailing operations, and some have recorded losses. Yet still most of them persevere.

Now their competitors, including Dixons and Kingfisher, are trying to force a rethink. They say the retail results of the regional electricity companies and the Scottish power companies have been exaggerated and have demanded an investigation.

At their prompting, Ofgem, the electricity industry regulator and the Office of Fair Trading are looking at whether power companies cross subsidise their retail operations from other businesses and obstruct fair trade.

If the inquiries confirm this is the case, more electricity companies may follow the lead of London Electricity and South Wales Electricity which have ended or are ending their direct involvement in retailing.

Whatever the profitability, power company retailing is big business. With more than 1,100 shops, electricity groups collectively own the second largest group of electrical goods out-

lets in the UK after Dixons, which also owns the Currys chain. Their market share is about 13 per cent.

Such a presence is not common internationally. In neither France nor the US do power distributors feel the need to sell goods in high street shops. The retailing tradition in the UK stems in part from an industry culture which has promoted increases in electricity volume sales as the main aim of the power industry.

The logic is that the more appliances are sold, the more electricity volumes will rise, says one power company executive.

Retailing has also grown alongside customer service facilities which customers use to make complaints and pay their bills. Almost every power company shop in the UK has a services counter, and they are highly valued by customers.

That is one source of complaint from rival retailers. They believe that in many cases the customer services units do not contribute a fair share of the rent of the showroom they occupy.

More serious, they say, are the cross subsidies from the recs' main businesses to their retailing arms. "The problem is that many shops are not being charged fully for the services they use," says one rival com-

pany executive. "Rents are more realistic than they were in the late 1980s when we estimate the regional boards (electricity companies predecessors before privatisation) were charged a third of the market rate."

"But most recs are still not charging their retail operations fully, if at all, for the capital used in special promotions. That is why their shops can offer so much interest free credit."

Not so, say the regional companies. Seaboard is typical in its response. "We negotiate with electrical manufacturers for supporting promotions just like any other retailer," says Mr John Weight, retailing head. "One hundred per cent of costs associated with Seaboard's business are charged to the business."

If the recs are robust in their defence of the way they apportion costs for their shops, few are able to declare retail profits with pride. Norwest, serving the north west of England, is generally considered the most impressive retailer, and last year made operating profits of £8m from the business, on turnover of £139m, against operating profits in the company as a whole of £155m. It is planning significant expansion

from its 89 stores. Other companies are less bullish. Most declared operating profits for last year on retailing, in contrast to the previous year when most recorded losses. But the amounts were small - typical examples were East Midlands' £200,000 and Manweb's £500,000 - and some lost money, including Swelb which declared losses of £1.8m.

In addition, several companies made significant provisions for restructuring which wiped out any profits. So why persist? One answer is that the companies have taken action aimed at significantly improving retailing performance.

Since the break-up of national collective bargaining last year, most power companies have negotiated deals with retailing staff which either freeze or reduce wages.

Several companies have also merged their retailing business with other recs and are seeking to improve service and transform the dowdy image of the rec stores by hiring specialist retailers. The new alliances include East Midlands and Yorkshire in one unit and Eastern, Southern and Midlands in another.

Another factor in keeping stores open is the fear of customer reaction to closure plans. "If we were starting

again we would not go into retailing but there is more work in closing one shop than there is in re-organising our entire company," one power company chief executive says.

He adds: "Closures get the chambers of commerce and local business up in arms. We closed one branch four years ago and we are still getting petitions. There is also the complication that you still have to provide some kind of a high street presence for people who want to pay bills. We do not have the direct debit culture of the US."

For these reasons, most recs believe that the decisions of Ofgem and the OFT will make only marginal difference to the number of high street stores.

They also point out that if cross subsidisation was found and the regulatory authorities order change, the effect on the overall businesses of each company would be minimal since it would simply transfer profitability from one business arm to another.

Competitors are unconvinced. According to one: "If the power company businesses become as transparent as they should be, shareholders will be able to see what is happening and the pressure to get out of retailing will intensify."

Alders and BAA deal will spread risk more equally

By Maggie Urry

ALLDERS International, the tax and duty free retailer which is part of the Alders Group, has signed a deal with BAA covering all its shops in BAA's UK airports. The contract runs until 1999 and replaces individual contracts for each store, some of which were due to run out this year.

The new agreement also changes the way in which each side makes profits from retailing, sharing risks more equally between them. It will give Alders, which is hoping to float in the next few months, a more stable flow of profits from its BAA shops. BAA said that as well as long-term security it would enable the two sides to work together on new ideas while sharing the risk.

About a quarter of Alders' turnover is being secured by the deal with BAA. Its BAA shops had sales of £161.1m in the year to March 1993, while

Alders International's turnover was £296.5m in its financial year to September 1992. Alders' other activity, department stores, had sales of £259.1m in that period.

Usually airport shops are run under five-year contracts at the end of which they are put out to bidders. Alders 1992 profits were adversely affected by the loss of a large contract to run a shop at Sydney airport.

Mr Harvey Lipsith, chief executive of Alders, said "there is always a bit of nervousness about contracts. This deal allows us to target other geographical areas without covering our backs all the time."

He said the new system of payment "should benefit both parties and make it much easier to predict profitability." Until now Alders has been paying BAA a rent based on turnover with a guaranteed minimum. Now BAA will pay

Alders a management fee, more than covering Alders International's costs. A profit target will be set, and profits above that will be split between the two.

Mr Lipsith said this shifted the balance of risk away from Alders International, and gave it a greater incentive to drive the business for growth.

BAA said it had struck a similar deal with Forte, the hotels and catering group, which had been operating since January with benefits to both sides' profits.

BAA's strategy is to expand the space in its airports devoted to shops over the next three years. Tax and duty free shops are central to this plan, and Sir John Egan, chairman, said they provided "an important source of revenue to BAA" as well as offering customers "choice and value".

Alders International is the largest retailer in BAA's airports.

Dennis Stevenson to chair GPA

By Paul Taylor

MR DENNIS Stevenson, chairman of SRU Group and the Tate Gallery, is expected to take over as chairman of a restructured GPA Group following the signing of its rescue deal with GE Capital, the financial services arm of General Electric of the US.

Mr Stevenson, who is also a member of the Takeover Panel and a non-executive director of Pearson, has been invited to succeed Mr Tony Ryan and is expected to accept the appointment.

Under the terms of the rescue deal GPA's \$5.2bn (£3.48bn) borrowings are being separated

from its assets and a new company, GE Capital Aviation Management, is being set up. GECAM will be responsible for the combined leasing business of GPA and GE's subsidiary, Polaris Aircraft Leasing, including the day-to-day management of GPA's 470 aircraft.

Mr Ryan, GPA's founder, is expected to be appointed executive chairman of the new company working with a chief executive appointed by GE.

Another two non-executive directors are to be announced soon, replacing Lord Lawson, former chancellor, Mr Carret Fitzgerald, former Irish Prime Minister, and Sir John Harvey-Jones, former ICI chairman.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Walsley (UK)	Erb Lumber (US)	Building materials	\$51.5m	Resumes acquisition programme
Heesbro (US)	Unit of Virgin (UK)	Computer games	£16.8m	Taking inter-active stakes
Bass (UK/INN Realty Hotel Ventures (India)	Joint Venture	Hotels	£10.8m	Franchise venture
Dreschner Bank (Germany)/BNP (France)	SNP-Dreschner Bank Rosnya (BV)	Banking	\$8.7m	Joint bank licence won
Novo Nordisk (Denmark)	Anagen (US)	Pharmaceuticals	\$5.4m	Taking 17-1/2% stake
McKeechnie (UK)	Phipps International (Australia)	Metal components	\$5.1m	Buy via local arm
Hiram Walker (UK/Jagatit Industries (India)	JV	Drinks	\$2.2m	Indian liberalisation continues
Silicon General (US)	Unit of Peak (UK)	Data Systems	£1m	Peak sells Navstar remnants
InterEurope Technology (UK)	Talab Inform Services (Sweden)	Business services	\$0.4m	Indirect Celsius
Philip Morris (US)/China National Tobacco Corp (China)	JV	Cigarettes	n/a	Manufacturing move

Swire Group

CATHAY PACIFIC AIRWAYS LIMITED

1993 Interim Results - Highlights

Consolidated results - unaudited:		
	Six months ended 30th June	
	1993	1992
	US\$m	US\$m
Turnover	1,422	1,420
Operating profit	112	201
Net finance charges	16	29
Net operating profit	96	172
Associated companies	18	15
Profit before taxation	114	187
Taxation	24	23
Profit after taxation	90	164
Minority interest	2	1
Profit attributable to shareholders	88	163
Dividend	39	39
Retained profits	49	124
Earnings per share	US\$1.1c	US\$1.7c
Interim Dividend per share	US\$1.3c	US\$1.3c
Exchange rates for calculating the US\$ figures were	HK\$7.75	HK\$7.73
	12 months ended	
	30/06/93	30/06/92
Available tonne kilometres (millions)	6,881	5,963
		+15.4%

Prospects

Yields remain under pressure due to a combination of market weakness and over-capacity. We are mitigating the effects of inflation by improving productivity through Operation Better Shape. The passenger and cargo load factors for the full year are forecast to be below the 1992 levels. Although the full year's results are expected to be materially lower than 1992, we expect that the second half year's results, whilst being less than those for the same period last year, will not show a percentage drop as great as indicated for the first half year.

Interim Dividend

The interim dividend will be paid on 4th October 1993 to shareholders registered at the close of business on 24th September 1993; the share register will be closed from 20th September 1993 to 24th September 1993, both dates inclusive.

P D A Sutch
Chairman

Hong Kong, 25th August 1993

CATHAY PACIFIC

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

Sterling Floating Rate Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period from August 26th, 1993 to November 26th, 1993, has been fixed at 8.0 per cent per annum.

On November 26th, 1993 interest of sterling 75.82 per sterling 1,000 nominal amount of the Notes, and interest of sterling 378.08 per sterling 25,000 nominal amount of the Notes, will be due against Coupon No. 36.

Swiss Bank Corporation
London
Reference Agent

C&G

Cheltenham & Gloucester Building Society

£125,000,000

Floating Rate Notes due 1995

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 26th November, 1993 has been fixed at 6.025% per annum. The interest accruing for each three month period will be £15.16 per £100,000 Bearer Note, and £1,516.63 per £100,000 Bearer Note, on 26th November, 1993 against presentation of Coupon No. 11.

Union Bank of Switzerland
London Branch Agent Bank
26th August, 1993

U.S. \$400,000,000

Banque Française Du Commerce Extérieur

Guaranteed Floating Rate Notes due 1997

For the three months August 31, 1993 to November 30, 1993, the Notes will bear interest at 3.5% per annum. U.S. \$80.47 will be payable on November 30, 1993, per U.S. \$10,000 principal amount of Notes.

By The Chase Manhattan Bank, N.A.
London, Agent Bank
August 31, 1993

U.S. \$200,000,000

Bergen Bank A/S

Perpetual Floating Rate Notes (with the right to subordinate)

In accordance with the provisions of the Notes, notice is hereby given that for the six months interest period from August 31, 1993 to February 28, 1994, the Notes will carry an interest rate of 3.5625%. The interest payable on the relevant interest payment date, February 28, 1994, will be U.S. \$179.11 per U.S. \$10,000 principal amount of Notes.

By The Chase Manhattan Bank, N.A.
London, Agent Bank
August 31, 1993

Exchange rate gains help Atlas Copco climb 12%

By Christopher Brown-Humes in Stockholm

ATLAS Copco, the Swedish industrial components group, said lower interest rates and exchange rate gains contributed to a 12 per cent rise in first-half profits, despite a substantial fall in sales and orders.

The group's underlying busi-

ness was flattened by the depreciation of the Swedish krona, which lifted sales by 13 per cent to SKr8.93bn from SKr7.87bn, and orders by 9 per cent to SKr9.34bn.

Sales were sharply lower in volume terms, which pushed operating income after depreciation down 8 per cent to SKr804m.

The group said improved sales in the US, south-east Asia, the Middle East and Australia failed to compensate for weak demand in most European countries.

However, second-quarter operating income at SKr319m was SKr34m higher than in the first three months.

Orders were also down, particularly in Europe, which only

accounted for 54 per cent of orders in the latest six months, compared with 61 per cent a year ago. Orders rose in North America, Africa, the Middle East, Asia and Australia.

The group's industrial technique division lifted operating profits to SKr125m from SKr88m due to rationalisation while construction and mining technique profits were unchanged at SKr34m. Profits within the compressor technique division slumped to SKr45m from SKr54m.

Mr Michael Trueschow, chief executive, said he expects the weak demand trend in Europe to persist, but he still forecasts 1993 profits in excess of the SKr1bn level reached last year.

President of CBoT clearing body quits

By Laurie Morse in Chicago

MR Roger Rutz, the president of the Chicago Board of Trade Clearing Corporation, has resigned after 10 years at the head of the Chicago exchange's independent clearing organisation.

Mr Rutz, 40, cited personal reasons for his departure. Mr William Feldman, the Clearing Corporation's chairman, named Ms Denise Hagerty as interim chief executive while an international search is conducted for Mr Rutz's replacement.

Ms Hagerty, presently chief operating officer, joined the Clearing Corporation in January after 12 years managing clearing operations for a prominent Chicago brokerage firm.

Mr Rutz's departure comes at a critical time for the Chicago Board of Trade. The Clearing Corporation guarantees trades for the exchange, and maintains its top quality credit rating. A year ago, the Chicago Board of Trade and the Chicago Mercantile Exchange entered exploratory talks to merge their clearing operations.

Mr Patrick Arbor, chairman of the CBoT, said Mr Rutz's departure would not affect those discussions.

"The board of directors of the Clearing Corporation are fully committed to unified clearing," Mr Arbor said.

"They will choose a successor [to Mr Rutz] with that goal in mind."

The new Clearing Corporation president will have to contend with the professional differences that have impeded progress in those talks, industry sources said.

Swiss Re joins US bank in venture

By Ian Rodger in Zurich

SWISS Reinsurance, the world's second largest reinsurer group, is following the growing trend of creating companies which specialise in natural catastrophe insurance.

The group has joined John Head & Partners, a New York merchant bank specialised in the insurance field, to form Partner Reinsurance.

Swiss Re will put \$100m into the venture, which will be based in Bermuda. John Head \$35m, and other founder institutional investors \$10m.

Partner Reinsurance then

plans to raise \$500m from the US, European and Japanese equity markets in an initial public offering as early as October.

The move follows a series of similar ventures created by leading reinsurers in recent months. The idea is to respond to the soaring demand for natural catastrophe insurance following the sharp increase in damage caused by earthquakes and hurricanes around the world in recent years.

Paradoxically, while soaring insurance claims have hurt all reinsurers in the short term, they have also led to a fund-

mental improvement in trading conditions by shaking out weaker competitors.

As a result, the US capital market has become more enthusiastic about insurance securities, making it possible for ventures like the new Partner Re to raise equity.

Swiss Re said the new venture would differ from its rivals in that it would concentrate more on markets outside of the US.

"Our wide experience in other parts of the world will be of great value," Mr Walter Kielholz, a Swiss Re director said.

Partner also differed from others in that Swiss Re would not control it. Its stake, initially 13 per cent, would not exceed 30 per cent. Swiss Re said it deliberately sought to maximise outside capital. "Our aim is to generate as much new capacity as possible," Mr Kielholz said.

Also, Swiss Re itself did not want to raise its exposure to the natural catastrophe market.

The public share issue, of 66 per cent of the initial share capital, is being arranged by Smith Barney and Morgan Stanley International.

Linotype plunges into the red

By Christopher Parkes in Frankfurt

SHARES in Linotype-Hell, the German print technology group, tumbled 8 per cent yesterday after an alarming half-year report announced a plunge into loss and a drastic overhaul of the business.

The "unexpected" deficit of DM57m (\$33.7m) following a first-half profit of DM16m last time, had "cast a shadow over the whole year", the company said.

The company's shares dropped DM37 in Frankfurt to close at DM377. Group sales

were down 3 per cent to DM471m.

Aiming to return to the black by 1994, Linotype plans to cut its international workforce by about 15 per cent, reduce its product range, and reorganise management and production structures.

The report hinted at possible domestic capacity closures with a statement that efforts to reduce manufacturing costs would be actively pursued, especially to tackle problems associated with production within Germany.

While there had been no sign of problems in the first quar-

ter, the company said, its customers were now complaining of falling advertising revenues and profits.

Income orders fell 7 per cent, stemming partly from a 17 per cent slump in Germany, although demand in other European markets was down by as much as 50 per cent.

Orders from Japan, the third-biggest market after the US and Germany, were down 15 per cent.

Announcing job losses of 500 in Germany and 200 abroad, the company said it might not be able to avoid compulsory redundancies.

L'Air Liquide in gas deal with Kemira

By Christopher Brown-Humes

KEMIRA, the Finnish state-owned chemicals group, is linking with L'Air Liquide of France to produce and market industrial gases in Finland.

The two companies are setting up a joint venture, Polargas, which will be 70 per cent owned by the French group.

The venture will take over Kemira's industrial gas production and distribution facilities in Oulu and Raase on the west coast of Finland.

The operations mainly produce oxygen, nitrogen and argon and have a FM100m (\$17.1m) annual turnover.

L'Air Liquide will contribute know-how and make a payment of unspecified size to its holding in the new company.

Kemira said it was optimistic about growth possibilities for industrial gases, but did not want to expand its operations in this area on its own.

Mortgage-backed issue from Bank of Ireland

By Tracy Corrigan

TWO important deals launched on Friday in the growing sterling asset-backed bond market may herald a quickening of the pace of securitisation in the UK. Securitisation allows companies to remove assets from their balance sheets, by repackaging and selling them as bonds.

Two landmark deals - a mortgage securitisation by National Westminster Bank and a loan securitisation by Barclays Bank - are widely expected to emerge in the next few months.

Last Friday, Bank of Ireland Home Mortgages, the Bank of Ireland's UK mortgage subsidiary, returned to the sterling mortgage-backed securities market after a five-year absence in order to fund its expanding £2.6bn mortgage book.

The Bank of Ireland's third public mortgage-backed offering consisted of a £250m issue

of floating-rate notes issued through a special purpose company, Residential Property Securities No. 3, and arranged by NatWest Capital Markets. It had previously completed two private placements.

The Bank of Ireland bought Bank America Finance's mortgage business in 1987.

Mr Tom O'Neill, finance director at Bank of Ireland Mortgages, described the securitisation as "a very attractive way of financing our business," and said the bank would continue to tap the market.

Also in the sterling market, Anglo Leasing, a subsidiary of the Summit Group, a UK leasing company, launched the first issue in the UK backed by lease receivables. Lease receivables have been used to back commercial paper. The £185m issue of FRNs, arranged by Kleinwort Benson, is backed by leases on business equipment such as photocopiers, vending machines and computers.

Japanese trade house to set up Beijing offshoot

ITOCHU, the Japanese trading house, is expected to establish a wholly-owned subsidiary next month in China, which, in theory, will allow the company to compete on equal terms with Chinese companies, writes Robert Thomson in Tokyo.

The trading house, which will be the first Japanese company with such a subsidiary, expects government approval in coming weeks, and will use the new company to oversee its 50 joint ventures in China.

The new subsidiary, yet to be named, will have an initial capital of \$10m and be based in Beijing.

Asbestos claims hit US insurers

By Frank McGurty in New York

THIRD-QUARTER results of two US insurance groups, Chubb and CNA Financial Corp, will suffer as a result of an agreement on settling certain claims related to asbestos products manufactured by the Fibreboard Corp.

As a result of the accord, Chubb yesterday warned that it would post a loss in the third quarter after taking an after-tax charge of \$388m relating to the settlement. However, the company expects to report a

net profit for the first nine months of 1993 and for the full year.

The expected quarterly loss, which works through at \$3.88 a share, would follow the company's announcement of second-quarter net income of \$188.5m or \$1.89 a share. For the first half, Chubb posted net income of \$294.3m, or \$3.31.

CNA Financial, which is 83 per cent-owned by Loews Corporation, said it would take a \$325m after-tax charge, or \$5.26 a share, in the third quarter because

of asbestos-related claims.

Loews, in turn, warned that the agreement would reduce its third-quarter earnings by about \$270m, or \$4.17. In last year's third quarter, Loews, which also owns Lorillard, which markets tobacco products, posted net income of \$128.6m, or \$1.98. The figure included a \$109.7m charge relating to claims at CNA from damage caused by Hurricane Andrew.

Chubb said it was boosting its reserves for Fibreboard claims by \$675m, to \$1.25bn.

Price fixed for Japanese rail offering

By Emiko Terazono in Tokyo

THE PRICE at which shares in East Japan Railway, one of seven regional railway companies created in 1987 by the break-up of the national system, are to be offered for sale was yesterday fixed at ¥300,000 (\$3,656) a share.

JR East, which will be listed on the Tokyo stock exchange in October, will be the first state flotation since Nippon Telegraph and Telephone, the 65.7 per cent government-owned telecommunications giant, went public in 1987.

The flotation, initially scheduled for last year, was postponed as a result of stock market weakness. Half of JR East's 4m shares, with a face value of ¥50,000, will be sold in the first tranche.

The success of JR East's listing is seen in Tokyo as crucial for other semi-privatised companies, such as Japan Tobacco, and the remaining six railway groups.

The price was based on the auction of 600,000 shares last week, where the weighted average of successful bids came to ¥379,806. The accepted bids ranged from ¥352,000 to ¥623,000.

Over 17,000 bids were placed for the auction, with 3,993 successful bids, including 52 from foreign investors. The 10 largest buyers were all major financial institutions led by Fuji Bank with 30,000 shares and Long Term Credit Bank with 21,500 shares.

NEWS DIGEST

Berendsen turns in first-half rise to Dkr269m

SOPHUS Berendsen, majority shareholder in Rentokil, the UK environmental and property services group, reports an increase in first-half net profits to Dkr269m (\$39m) from Dkr250m a year earlier, writes Hilary Barnes in Copenhagen.

The results were adversely affected by the strength of the krona. Group sales, of which about 60 per cent are accounted for by Rentokil, advanced 8.5 per cent to Dkr4.20bn.

Berendsen said that full-year results will be significantly influenced by two important investments this year, Rentokil's acquisition of the Securigard Group and the Ber-

endsen Industrial division's acquisition of the UK's Lucas Fluid Power Group.

Metal prices hurt MIM Holdings

LOW world metal prices caused MIM Holdings, the Australian mining group, to dip into the red in the final quarter, but the group reported only a marginal decline in operating earnings for the full year to the end of June, writes Bruce Jacques in Sydney.

Operating earnings fell marginally from A\$87m to A\$86.1m (US\$56.8m) on an 8 per cent improvement in revenue to A\$2.02bn. The dividend is being held at 5 cents a share.

Abnormal items including large dividends, write-offs and currency fluctuations, had a substantial influence on earnings available to shareholders. This caused bottom

line earnings to fall 30.4 per cent to A\$74.0m.

Comalco lifts interim pay-out

COMALCO, the Australian integrated aluminium producer, has raised its interim dividend from 2 cents to 3 cents a share after overcoming lower prices to record a marginal earnings increase in the six months ended June.

Operating profit rose from A\$15m to A\$16.7m (US\$10.5m) on a 10.4 per cent revenue lift to A\$1.09bn.

But the result was transformed by abnormal items and a superannuation fund adjustment which boosted earnings available to shareholders from A\$8.5m to A\$9.3m.

Directors said the average London Metal Exchange three month price for aluminium was US\$1,185 per tonne for the

reporting period, compared with an average of US\$1,296 per tonne previously.

"This first-half average price is the lowest for any half-year period since the LME high grade three month contract began in June, 1987," they said.

SA Brewing ahead

SA BREWING, the diversified Australian brewer, reports a 6.6 per cent increase in net earnings to A\$120.1m (US\$80.1m) for the June year.

Sales rose 13.3 per cent to A\$2.29bn, and the dividend is being stepped up from 15.5 cents to 15.75 cents a share.

The packaging operations were the only division to increase earnings, moving up from A\$97.4m to A\$104.4m. The contribution from the beverage and food division eased from A\$75.7m to A\$74.9m and the appliances result slipped from A\$83.6m to A\$82.2m.

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Bonds' strength unnerves analysts

Yet it was a week when the 30-year bond gained one and a quarter points, and yields dropped from 6.32 per cent to 6.1 per cent. All of this was

Consequently, analysts expect real GDP growth to come in between 0.8 per cent and 1.0 per cent, down from the original estimate of 1.6 per cent. These revisions are already priced into bonds, but any figure under 0.5 per cent

Patrick Harverson

Sun still shines on the long end

Economists had expected a cut of at least a quarter percentage point which would have given an opportunity for hard-pressed European economies, such as France, Belgium and Denmark, to cut rates.

He views both domestic and global factors as perpetuating the rise and the main four reasons he cites for a continuation

The Bank of England took advantage of Friday's gilt surge to announce £800m worth of taps consisting of £400m of 9 per cent conversion

"Also the government won't tighten fiscal policy and we are in a fairly robust recovery which is bound to have some impact on the inflation rate." Yamachi has lowered its current long yield forecast to take into account what it sees as the short-term move to long gilts following Germany's discount rate stance. However, the revised figure is 7.7 percent, some 40 basis points

Peter John

Foreign demand underpins rally

While there is nothing fundamental to stop further appreciation of the Italian and Spanish markets, analysts are becoming rather edgy about

Spain is also faced with a burgeoning budget deficit, fuelled by regional government spending, which is difficult to curb without

Also he argues that the 120 basis point rally in 10-year bond yields in the last month has been overdone considering that three-month rates have fallen only 25 basis points. "The long bonds have discounted a lot of easing," he said.

Mr Burke at Citibank takes a more positive view of the Ital-

Tracy Corrigan

Tracy Corrigan

Procordia United Brands
will on the 1st September 1993 become the business area
Swedish Match

★★★
SWEDISH MATCH

The business area is presently wholly-owned by Procordia AB. As a result of an arrangement between Procordia's principal owners, ownership of Swedish Match shall be deemed to have been transferred to the Volvo Group, the transfer to be effective from the latter half of 1993. The business area company and its Supervisory Board remain in Sweden.

[illegible]

STRAIGHT BONDS: Yield to redemption of the bid price. Amount issued is expressed in millions of currency units.

LONG TERM INVESTED ASSETS: Values are indicated. Marginal above all amounts offered net for US dollars. Corporate income.

CONVERTIBLE BONDS: Dollars unless indicated. Premiums: premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant premium over current share price. Bond warrant at US dollar value at current warrant price.

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INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Brightening prospects for Nordic borrowers

JUDGING by the recent flurry of international bond issues from Finland and Sweden, a significant thaw is under way in investor sentiment which a few months ago was as frozen as the Baltic Sea in winter.

"If I count the number of foreign investment banks that call me and send me proposals compared to 10 months ago, then, yes, it is clear that attitudes have changed," a senior Stockholm banker remarked last week.

Late last year, when the extent of the losses run up by Nordic banks became clear and the region was wracked by a deep economic and currency crisis, foreign investors turned their backs on what had previously been among the world's best credit risks.

But pledges by the governments of Sweden, Norway and Finland to support their respective banking systems, as well as mounting evidence that the banks are coming off the critical list, has enabled investors to adopt a more balanced view on Nordic borrowers.

"I think it is a crucial factor for

foreign investors that they see the level of government support behind the banks," says an official at Finland's Okobank, whose \$150m issue of floating-rate notes (FRNs) in July marked a turning-point for Nordic credits.

The most obvious indicator of the extent of the rehabilitation of Swedish and Finnish borrowers has been the sharp cut in the margin or "spread" they have to pay over the yield on underlying government paper. Last week, Finland achieved its best pricing in three years when it raised \$250m through an offering of three-year Eurobonds priced to yield 28 basis points over underlying US Treasuries. During the financial crisis last year, spreads on Finnish sovereign paper widened to around 90 basis points.

Sweden is now able to raise funds at 10 basis points below the London interbank offered rate (Libor) compared with around 25 basis points over Libor late last year when, like Finland, it had to raise large amounts quickly.

Now that the sovereign borrowers

have accomplished a large part of their international funding programmes, there is room in the market again for the banks and the spreads they have to pay have come back down.

Last week Spintab, the Swedish domestic mortgage association owned by Swedbank, raised \$250m through an issue of five-year FRNs at an all-in cost of 33 basis points over Libor, less than half the spread on a similar offering launched in February.

Kansallis-Osake-Pankki (KOP), the leading Finnish bank, also tapped the market last week with a \$150m issue of perpetual subordinated notes. This would have been virtually impossible several months ago when investors were reluctant to buy even senior Nordic debt.

Mr Jean-François Tappelet, who deals with international funding at KOP, says: "The access to funds has opened totally and the spread which KOP has to pay over Libor for three to five-year maturities has halved."

The rehabilitation of Nordic borrowers is being helped by a hunger

among investors for high-yielding assets. Despite the improvement in pricing, Nordic issues still offer a substantial pick-up over the yields on other bonds. In addition, investors are now eager to buy Nordic bank debt in anticipation of an upgrading of their credit ratings.

Their hopes have been fanned by the recent crop of good news from the banking sector. Earlier this month Scandinavianiska Enskilda Banken, Sweden's leading bank, said it had returned to profit in the second quarter and had withdrawn its request for state support.

Norway's two biggest banks, Den norske Bank and Christiania Bank, reported a return to profit in the first half. In Finland, KOP and Unitas, the second-largest bank, say they will cut their losses this year.

So far, the two biggest Swedish players, SE Banken and Svenska Handelsbanken, have not moved back into the bond market, concentrating instead on rights issues in order to rebuild their capital.

The only Swedish corporate borrower this year has been Vattenfall,

the national power group, which raised \$500m through an issue of five-year Eurobonds in May.

Syndicate managers and borrowers alike believe spreads will continue to tighten, but there are two factors which could interrupt this trend. One worry is the huge borrowing requirements of the Swedish and Finnish governments stemming from their budget deficits.

They are spreading their borrowing among different instruments, but there is some concern that non-sovereign borrowers could be crowded out once again, in which case spreads would go back up.

The second is the depth of demand for Nordic issues, despite the improvement in investor sentiment. "Certainly there is a window of opportunity now," says an official at a senior Swedish bank. "But if a lot more banks come out with issues rapidly, the market could become saturated."

Hugh Carnegie and
Antonia Sharpe

RISK AND REWARD

Wreckage of ERM may signal end to era of easy profits



IN THE wake of the widening of the exchange rate mechanism's bands earlier this month, European political leaders - and in particular the French - have talked of getting their own back on the speculators who sabotaged their cherished system. But the politicians may not have to wait very long before they get some revenge.

Over the last year, currency dealers have made substantial profits by taking successful one-way bets on the devaluations of sterling, the Italian lira, and the Iberian currencies. But the latest ERM crisis does not appear to have been a source of unqualified joy for foreign exchange players. Unexpected exchange rate movements in the French franc and Danish krone have trimmed some of the profits of speculators who were selling these currencies.

At the same time, the greater fluctuations now seen in European exchange rates have forced some speculative players to abandon long-standing techniques for making huge profits out of Europe's semi-fixed exchange rate system.

In recent weeks, some dealers in London and New York have talked of how movements in European currencies have taken them by surprise and caused them to give back some of their profits.

The French franc has performed far more strongly against the D-Mark than had been anticipated when the ERM bands were first widened. Instead of the immediate move down to FF3.60 against the D-Mark that had been expected, the franc bottomed out at FF3.5300 immediately after the ERM bands were widened.

The franc has been supported by France's policy of slowly reducing interest rates, and analysts think that the French currency will soon be forced to new lows against the D-Mark. But some traders who borrowed francs and sold them near the FF3.5300 level have closed their positions and taken a loss.

A number of US investment banks have operated funds in recent years which allowed customers to use low interest rate currencies, like the US dollar, to invest in high-yielding ones like the Danish

krone and Spanish peseta. These investments were bound to lead to high returns because there was little chance of a depreciation in the value of the currencies that had been purchased while they were in the narrow bands of the ERM.

Using the technique of margin trading, an investment bank could enhance profits by taking positions in these currencies which were up to 10 times the size of the original sum deposited by clients.

But the recent changes in the ERM, and the greater volatility in exchange rates, has made these funds far riskier to operate. Last week, Bankers Trust, the US investment bank, revealed that it was seeking a vote from investors to liquidate a fund called "The Diversified Currency Management Fund" which had made substantial gains by investing in European currency markets.

Bankers Trust said it was also seeking to change the nature of operations of another fund which had gained from differentials in interest rates. Its investment objectives were now to become more "opportunistic".

Both funds had assets of \$640m invested in them by the bank's customers. The funds were used to take leveraged positions up to 10 times that size, and could therefore have been responsible for pushing as much as \$6bn through the currency market.

Mr Bill Tazza, managing director at Bankers Trust, said the investment bank had been "pro-active" in its decision, and that the widening of the ERM bands had made this interest rate play more difficult. He said the decision to change the nature of these funds had not been taken against a background of losses.

"There are quite a number of these sorts of fund in the market place," he said, "but the risk/reward ratio of this trade has now changed considerably".

European governments should not take the view that the crisis in the fixed exchange rate system was entirely in the interests of currency speculators.

For some players in this market, the wreckage of the ERM may have signalled the end to an era of easy profits.

James Blitz

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Cie Financiera de CIG	150	Sep.1998	(a)	99.8R	-	-	Merrill Lynch Intl.
Spinnaker	250	Sep.1998	(a)	99.825R	-	-	Kidder Peabody Intl.
Spinnaker Bidco/Right	150	Sep.2000	(a)	99.8R	-	-	Chemical Investment Bank
BankAmerica Corp. 2	100	Sep.1998	(a)	99.8R	-	-	Kidder Peabody Intl.
Lavro Bank Overseas	50	Sep.1998	(a)	99.8R	-	-	Morgan Stanley Intl.
BellSouth Telecommunications	300	Sep.2000	6.125	99.88R	6.137	+50 (54%-03)	Morgan Stanley Intl.
Republic of Finland	250	Sep.1998	4.5	99.875R	4.546	+28 (54%-03)	Swiss Bank Corp.
Credito Italiano Branch	150	Sep.2003	(a)	100R	-	-	Citibank North America
Kansallis-Osake-Pankki	150	Sep.2003	(a)	99.825R	-	-	Merrill Lynch Intl.
Girocredit Bank	100	Dec.2003	(a)	100R	-	-	Salomon Brothers Intl.
San Paolo (Nassau Branch)	100	Sep.2003	(a)	100R	-	-	Swiss Bank Corp.
SCOTIA 1992 (Case A)(b)	750	Sep.2003	5.25	99.88R	5.266	+50 (54%-03)	Goldman Sachs Intl.
SCOTIA 1992 (Case B)(c)	48	Sep.2003	6.15	99.801R	6.204	+74 (54%-03)	Citibank North America
General Electric Capital Corp.	250	Sep.1998	5	99.805R	5.015	+14 (54%-03)	Swiss Bank Corp.
Credito Italiano (FR)(d)	100	Sep.2003	(a)	100.35R	-	-	Citibank North America
Fujita Corp. USA	50	Sep.1998	(a)	100R	-	-	Tokai Bank Europe
D-MARKS							
LKB Baden Württemberg Fin.	15n	Sep.2000	6.5	99.25R	6.568	+36 (54%-03)	J.P. Morgan, Frankfurt
LB Schleswig-Holstein	200	Sep.2003	6.625	99.25R	6.730	-	Lehman Bros. Bankhaus
Kass. Kogro Col. (d)	44	Sep.1997	1.275	100	-	-	Dalwa Europe (Deutsch.)
Tobago Holding Finance	300	Sep.2003	6.75	102.85	6.565	-	Deutsche Bank
BLA, Munich	150	Sep.2003	(a)	100	-	-	Trinkaus & Burkhart
STERLING							
BT	500	Sep.2003	7.125	99.18R	7.246	+18 (54%-03)	Lehman/ G3 Waburg
Alliance & Leicester B/S	200	Sep.1998	(a)	99.375R	-	-	Santander Montagu & Co.
Bancromet (Grand Cayman)	75	Sep.2000	8.75	99.25R	8.903	+300 (54%-03)	Santander Montagu & Co.
Residential Prop. Secs. No. 3(y)	95	Sep.2022	(a)	100R	-	-	NatWest Capital Markets
Residential Prop. Secs. No. 3(z)	150	Sep.2022	(a)	100R	-	-	NatWest Capital Markets
Anglo Finance No. 1(z)	105	Sep.2001	(a)	99.8R	-	-	Wells Fargo
FRENCH FRANCS							
Banque Nationale de Paris	10n	Sep.2003	6.5	99.575R	6.700	+38 (54%-03)	BNP
Crédit National	10n	May.2003	7.25	104.55R	6.590	+32 (54%-03)	CCF
Banque Nationale de Paris(z)	500	Sep.2003	6.5	99.285R	6.600	+38 (54%-03)	BNP
YEN							
Lehman Brothers Holdings	100n	Feb.1998	(a)	100R	-	-	Lehman Brothers Intl.
Sunamono Corp. O'seas Cap.(j)	50n	Dec.1998	(a)	101.225	-	-	Samwa International
Eurobond	40n	Dec.1998	(a)	100R	-	-	LTCS International

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
CANADIAN DOLLARS							
City of Stockholm	100	Oct.1998	6.75	99.1R	6.368	+50 (54%-03)	Hambros Bank
GUILLER							
ING Bank	200	Sep.2000	7	101.95	6.789	-	ING Bank
Aegion	150	Sep.2003	6.5	99.8	6.528	+35 (p)	Bank van Hatten L.
ITALIAN LIRA							
DSI Bank	150n	Oct.2003	8.9375	100R	8.938	-	Banca di Roma
AUSTRALIAN DOLLARS							
Treasury Corp. of Victoria	100	Sep.2003	7.25	101.25	7.071	-	Hambros Bank
SWEDISH KRONOR							
Vattenfall Treasury	500	Sep.1998	7.375	101.75	6.949	-	SMB, London Branch
ESCUROS							
Nordic Investment Bank	7.5n	Sep.1996	9.75	101.375	-	-	BPI
SWISS FRANCS							
Bayerische Hypothekbank	150	Oct.2002	3	100	-	-	Swiss Bank Corp.
Japan Highway Public Corp.	450	Sep.2003	4.5	102.25	4.220	-	IBJ (Schweiz)
LB Schleswig-Holstein	150	Oct.2001	2.5	100	-	-	Credit Suisse
BL Finance/Cayman Is. (j)(k)	130	Sep.2003	3.125	100	-	-	Swiss Bank Corp.
Bank Dutch Municipalities	100	Oct.2001	2.55	100	-	-	Credit Suisse
Tokyo Kohan	75	Sep.1999	(a)	101.2	-	-	Norura Bank (Switz)

ENCOURAGING SIGNALS

GOOD NEWS FROM EASTERN GERMANY

1993
REMAINS DIFFICULT

In the 1st half of 1993, earnings in Electricity increased once again. Trading/Transportation/Services matched the previous year's level despite a difficult economic environment. However, a substantial earnings decline in Oil and wholly unsatisfactory results in Chemicals led to an overall decline in Group net income of 13.2% to DM 316 million.

From today's point of view, we anticipate the 1993 earnings to continue to develop as they did in the 1st half. However, we are optimistic that the cost-cutting measures will show their full positive effects in 1994.

INVESTMENT PROGRAM
IN THE NEW STATES

Good news from Eastern Germany: Following the agreement of the last of Eastern Germany's 164 municipalities to accept the "Stromvertrag", the way has been cleared for an investment program to privatize the region's utilities, five of which are managed by PREUSSENLEKTRA and on which PREUSSENLEKTRA plans to spend DM 600 million in 1993. By the year 2005, total capital expenditure in the electricity sector will amount to DM 6.7 billion.

Eastern Germany's principal utility VEAG, in which PREUSSENLEKTRA intends to acquire a 26.25% interest, has earmarked some DM 30 billion for modernizing the Eastern German power industry by the year 2005. Other major electricity projects of PREUSSENLEKTRA:



Copperplate engraving (around 1780)

the 900 MW lignite power station in Schkopau near Leipzig and the 160 MW power station in Kirchmöser, Brandenburg.

SOLID
FOUNDATIONS

1992 sales in Eastern Germany amounted to DM 4.1 billion. With a regional investment focus on the new states of DM 8.4 billion (1993 - 1997), we will concentrate on infrastructural improvements, i.e. generation and distribution of electricity, supply of gas and water, as well as waste business.

The initial steps to establish the mobile telephone network E Plus have been taken in Eastern Germany. To date, ARAL (VEBA interest 56%) has built up a network of 147 service stations in this region.

With some 7,000 employees in the new states, STINNES and RAAB KARCHER concentrate on DIY markets, building materials trading, transportation, warehousing and handling, coal trading, thermal engineering, and DP. VEBA IMMOBILIEN is engaged in urban development, housing, and commercial real estate in Leipzig, Berlin, and Weimar.

VEBA laid the foundations for a prosperous future of this region.

VEBA
TODAY

We are well prepared for future challenges. Our companies are engaged in

- energy, chemicals, and petroleum products
- trading and services
- integrated transportation and logistics systems.

VEBA
SHAREHOLDING

With 466,000 shareholders, VEBA is one of the largest publicly owned companies in Europe. 25,000 foreign, primarily European investors currently hold 54% of the capital stock.

Copies of the Interim Report as of June 30, 1993 and further information is available from VEBA AG, Public Relations, Bennigsenplatz 1, 40474 Düsseldorf, Germany. Tel ++49-211-45 79-3 67, Fax ++49-211-45 79-5 32

Group Key Figures	Jan.1 - June 30, 1993	Jan.1 - June 30, 1992	Change
Sales	DM million	33,210	33,121 + 0.3%
Group Net Income	DM million	318	364 - 13.2%
Capital Expenditure	DM million	2,041	1,832 + 11.4%
Personnel (June 30, 1993/Dec. 31, 1992)		129,071	129,802 - 0.6%

VEBA

WORLD STOCK MARKETS

AMERICA

Dow starts new week on the upbeat

Wall Street

US SHARE prices edged higher across the board yesterday morning, aided by stronger overseas markets and further declines in domestic bond yields. *Patrick Hanoverman in New York*

At midday, the Dow Jones Industrial Average was up 6.15 at 3,646.78. The more broadly based Standard & Poor's 500 gained 0.77 at 461.31, while the American SE composite was up 1.38 at 450.38 and the Nasdaq composite up 2.35 at 737.02. Trading volume on the NYSE was 85m shares by midday.

At the end of last week,

profit-taking brought leading indices a few points down from their record highs, so analysts were expecting this week to start on an upbeat note. Those expectations were met, partly due to gains in Japanese and German equity markets, and to fresh strength in the US bond market.

In recent months lower bond yields have been the main driving force behind the equity markets' record-breaking run, and yesterday morning the benchmark 30-year government bond edged higher once again, lowering the yield on the issue to 6.124 per cent, near its historic low.

The day's only major economic news - the 5.0 per cent

drop in July new home sales - had no apparent effect on investor sentiment. Investors will get a much better picture of the state of the economy later this week when a raft of key data, including second-quarter real gross domestic product and the August employment report, is released.

Technology issues were in demand, with Motorola firming \$1 to \$89.75, IBM adding \$1 to \$51.25, and General Motors rising \$1 to \$41.25. On the Nasdaq market, Lotus Development moved ahead \$1.25 to \$32.25 in volume of 2m shares after breaking house Donaldson Lufkin & Jenrette upgraded its rating on the stock to "buy" from "moderately attractive", citing the

strength and breadth of the company's products. Other technology stocks were also firmer, with Microsoft up \$1 to \$72.25, Intel \$1.25 higher at \$64.25, and Sun Microsystems ahead \$1 to \$25.25.

Canada

TORONTO was little changed in quiet midday trading. The TSE 300 index was off just 0.73 at 4,132.87 in volume of 8.75m shares worth some C\$77.2m.

Advancing stocks outpaced declines by 187 to 132, with 207 issues showing no change. The precious metals index moved forward 74.82 to 9,566.41, helped by a gain for Placer Dome of C\$1 to C\$28.25.

Taiwan's hopes rise for a second-half rally

Prospects favour equities, writes Dennis Engbarth

Taiwan's equity market could be ready for an upturn helped by improved prospects for export-oriented manufacturers and financial companies.

Confidence may also revive on political grounds: worries over a possible split in the ruling Kuomintang (KMT) party were eased earlier this month.

Some analysts believe that the TSE weighted index could again reach the 5,000 level that it hit at the beginning of April this year, although others more cautiously forecast a move to about 4,400.

Since April the index has fallen back, before stabilising around the 3,800 to 4,100 area, closing yesterday at 3,923.

The market's prospects may also be helped by a recommendation last week by Baring Securities, rating Taiwan as the most attractive of the world's emerging markets, with performance in the short term being assisted by the strength of the dollar.

The market's first-quarter rally coincided with the resignation of Mr Hau Pei-tsun as prime minister and his replacement by Mr Lien Chan, who has adopted a more pro-business style of government.

However, indications of an economic slowdown emerged in the second quarter, while the start of an economic contraction in mainland China also hurt a number of manufacturing companies exporting to or investing there.

As a result, the weighted index fell back, recording a year's low of 3,135.56 on July 7. Earlier hopes for brighter economic prospects in the second half have been dampened by the most recent government forecast, which anticipates a slight decline in growth in the last six months of the year.

Nevertheless, the recent depreciation of the New Taiwanese dollar against the US dollar has begun to have a positive impact on export orders.

"This factor will boost the performance of export-oriented sectors, such as electronics," says Mr George Hou, deputy manager of the fund depart-

ment of Jardine Fleming Taiwan Investment Management. He adds that the performance of Taiwanese electronics companies will also be helped by the intense competition raging in the personal computer sector in the US and Japan.

US and Japanese makers are coming to Taiwan to order low cost but high quality components, or to set up original equipment manufacturing arrangements," he notes.

The most positive development for equities has been the

market investments more attractive," says Mr Hou.

Taipei is also trying to attract more foreign capital into the local market, mainly through liberalising the regulatory environment.

Mr Yu Ping-nan, assistant general manager of CBC's foreign exchange bureau, says the bank, together with the Ministry of Finance and the Securities and Exchange Commission, decided to introduce several measures to encourage foreign investment in the equity market.

Mr Yu says the Ministry of Finance will soon announce a rise in the total quota for investment by foreign securities houses in the stock market from \$2.5bn to \$5bn. Approved foreign securities investment has already surpassed \$3.1bn.

"Foreign investment is far below the proposed new quota, but the move indicates a positive attitude," says Mr Huang Shu-shan, vice-president of the international department of National Securities.

The CBC also announced recently a rule which allows each foreign investor to invest up to \$100m at a time, instead of having to divide investments in lots of \$50m. The CBC also asked the Ministry of Finance to liberalise rules on the repatriation of capital and earnings.

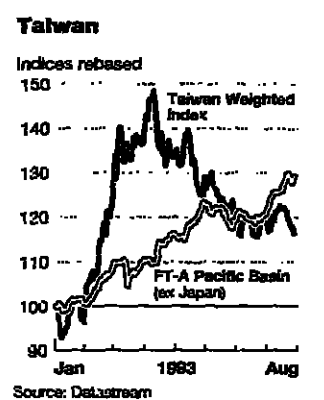
At present, each investor can repatriate earnings or invested capital a year after entry and only once each year.

The new draft rules, which may take effect by the end of the year, will allow foreign investors to repatriate earnings or invested capital within three months of entry, and will not place limits on the number of transactions.

Mr Lin Yung-kui, manager of S.G. Warburg's research department in Taipei, believes that this decision will be "a very major factor" in boosting the market.

But after major local banks showed a reluctance to make rate reductions, the CBC relaxed selective credit restrictions on August 14. These had been imposed in February 1990 to cool speculation in equities, the property sector and foreign exchange markets at a time when the TSE hit its all-time high of more than 12,000.

"This measure, and lower deposit rates, will make stock



Source: Datastream

EUROPE

Paris equities soar to another record close

THE ABSENCE of UK traders for the August bank holiday affected bourse turnover, writes *Our Markets Staff*, leading in some cases to increased sensitivity at share price level.

PARIS, hoping for an interest rate cut by the Bank of France, which failed to materialise, nevertheless maintained its steady optimism for economic recovery, and the CAC-40 index soared to another record close. The index advanced 21.78, or 1 per cent, to 2,306.87 in turnover of FF2.7bn.

Even a rise in unemployment data, which came in at a record high of some 3.2m, did not dent the market's enthusiasm, as the Mafif also rose to unseen levels. Some technical trading ahead of today's expiry of August futures and options was another contributory factor behind the gains.

There were technical reasons, too, for the rise in St Gobain and L'Oreal stock, with the index weighting of the two groups due to be increased today as new shares are listed. St Gobain rose FF7 to FF158.4 and L'Oreal FF27 to FF118.3.

Canal Plus was one of the day's few fallers, off FF7 to FF12.25, as the government announced plans to raise the limit on stakes held in television companies from 25 per

cent to 50 per cent.

FRANKFURT overcame a couple of minor disappointments to close higher, led by Allianz on technical grounds and Daimler on fundamentals.

The DAX index rose 17.39 to 1,921.89 with Allianz up DM58 at DM2,570 and Daimler DM18.50 higher at DM748.50 - both at new highs for the year. Turnover fell from DM6.7bn to DM5.3m. DB Research said that it liked the Allianz chart, now that the insurer has broken firmly through the DM2,500 level; a technical analyst saw the next resistance level at DM2,800.

Daimler figured in a week-end report by Manager magazine which said that its Mercedes operating unit wanted to cut costs by DM3bn in the current year, in addition to job cuts already announced. Daimler said there was nothing new of substance in the report.

Boeckh, the third of the big three chemical groups, to report half year profits, lost DM1.10 to DM280.10 after a 31 per cent fall at pre-tax level. Some traders called this marginally disappointing; others said that the results were in line with expectations after the BASF and Bayer declines last week.

A more dramatic fall was seen at Linotype-Hell, the

printing machinery company, which lost DM22 to a new 1993 low of DM78 after a heavy first half loss. It recovered from an intraday low of DM365 after the company announced a wide-ranging job cuts programme to reduce its workforce by 15 per cent.

ZURICH featured recovery hopes at the employment agency group, Adia, and the forecast of a marked 1993 loss at the telecommunications equipment manufacturer, Ascom, as the SMI index maintained its equilibrium to close 2.5 higher at 2,481.0.

Both Adia and Ascom had been seen as turnaround situations, said Mr Frederick Hasselauer at Swiss Volksbank in Zurich, but yesterday's news sent them in opposite directions with Adia SP4 higher at SF175 and Ascom SP70, or 5.3 per cent lower at SF1,250.

AMSTERDAM set new records, with the CBS Tendency index gaining 1.8 or 1.4 per cent to 129.9. The financial sector was strong following ABN Amro's good results last week: its shares advanced FI2.00 to FI69.20, while ING was up FI2.20 to FI73.90.

IHC Caland, the dredging group, added FI2.50 to FI38.00 in advance of a forecast of 14 per cent profits growth in 1993, which came after the close.

MILAN saw some activity in the Monday's shareholders meeting was held, with the latter's due today. Montedison picked up 1.41 or 5 per cent to L245 as fears that there might be an announcement of a merger between the two groups abated. Ferfin's shares advanced L4.75 to L245.

The Comit index rose by 4.95 to 632.88. Analysts at InterEuropa added that strength in banks yesterday might also have been due to a number of foreign investors coming into the market. Banca Commerciale rose L47 to L5,432 and Credito Italiano L70 to L2,850.

BRUSSELS sounded despondent as the Bel-20 index ended 8.88 down at 1,306.25 in lower than usual turnover of BF770m. The market has retreated from the highs it achieved nearly three weeks ago; some dealers said that investors were unwilling to move on Belgian shares until the country's social peace is on track, and a solution is found to its burgeoning public debt.

STOCKHOLM's equities, especially its interest rate sensitive ones, defied a rise in bond yields as the Affarsvarlden general index recovered 22.00, or 1.7 per cent, to 1,292.20 with the financial

index up 4.4 per cent.

Volvo Bs closed SKr14 better at SKr484 on speculation about a merger with the French Renault, and on last week's unexpectedly strong six-month earnings report.

VIENNA continued to move forward, although prices ended off earlier highs. The ATX index rose 3.51 to 1,007.75. WARSAW fell by some 7 per cent as investors took profits after the market's recent heavy gains. The WIG index fell 53.4 to 6,970.7 in active turnover of 1,000m zlotys.

THE FT-SE Eurotrack 100 index was unavailable yesterday because of the holiday in the UK.

SOUTH AFRICA

GOLD shares ended mainly lower in slow trading as the bullion price remained steady. The golds index relinquished 9 to 1,705, while the overall index receded 6 to 4,011. However, industrials advanced forward 1 to 4,615.

Among golds, Veal Reef's 50 cents to R249.50, Kloof 75 cents to R247.50 and Gold Fields fell R2.25 to R232.50. Elsewhere, Barlow Rand and SA Breweries retreated 50 cents apiece to R40.50 and R62.50 respectively.

ASIA PACIFIC

Nikkei registers its fifth consecutive gain

Tokyo

HOPES of an imminent cut in the official discount rate helped the Nikkei average to register its fifth consecutive gain, writes *Emiko Terazono in Tokyo*.

The Nikkei rose 121.01 to 20,912.58. Index-linked trading supported activity in the morning session, but lost steam later, the index falling to a day's low of 20,747.57 in the afternoon before rising to a high of 20,924.09 just before the close.

Volume came to 206m shares and advanced declines by 615 to 332, with 217 issues unchanged. The Topix index of all first section stocks put on 7.09 at 1,677.63.

Market participants hoped that the government's notation of East Japan Railway shares, which will be listed in October, would revive trading. The public offering price for the 1.4m shares was fixed at ¥380,000 after the market closed.

Fujitsu, the day's most active issue, firmed ¥5 to ¥839,

supported by hopes about the government's investment in telecommunication infrastructure, and the company's development of a shopping cart with a scanner which reads bar codes. Nippon Telegraph & Telephone appreciated ¥8,000 to ¥855,000.

Strong demand in semiconductor chips boosted Nikon, which climbed ¥12 to ¥937. The company is likely to revise upwards its sales forecasts for chipmaking equipment for the year to next March.

Housing issues were strong on hopes of renewed demand in the near term. Sekisui House rose ¥30 to ¥1,440 and Daiwa House ¥40 to ¥1,710.

Steels were lower on profit-taking. Nippon Steel shed ¥6 to ¥375 and Kawasaki Steel lost ¥9 to ¥365.

In Osaka, the OSE average rose 27.50 to 22,773.75 in volume of 20.2m shares.

Roundup

THE REGION was quiet and mixed yesterday, reflecting the UK holiday and other closures

in Hong Kong, Kuala Lumpur and Jakarta. AUSTRALIA set a six-year high, the All Ordinaries index adding 7.4 to 1,956.0, its best since before the global stock market crash in October 1987.

Turnover fell from A\$810m to A\$366m, but brokers reported US-based buying on a combination of a higher gold bullion price and a favourable interpretation of Australia's current account deficit.

Media stocks were among the star performers, the media shares sub-index rising 26.1, or 1.8 per cent, to 1,493.0 after weekend claims that they were undervalued. News Corp moved forward 10 cents to A\$10.04 and John Fairfax was 19 cents higher at A\$2.55.

SEOUL tumbled in thin trading as it extended last week's 6 per cent decline, the composite index falling a further 17.70, or 2.6 per cent, to 672.12 in volume of 12.9m shares.

Share prices were hit by speculation that the government will not include measures to boost the stock market today when it unveils a pack-

age of follow-up measures aimed at minimising the adverse effect of the newly enforced financial system, requiring the use of proper identities in all financial transactions.

NEW ZEALAND was dragged lower by falls in Telecom, Carter Holt Harvey and Fletcher Challenge, although Brierley Investments bucked the trend, rising 4 cents to a 1993 high of NZ\$1.25 on speculation about a large asset sale, later denied by chief executive Mr Paul Collins. The NZSE-40 index finished 14.40 down at 1,964.10 in turnover of NZ\$55m.

SINGAPORE consolidated, a 12.82 fall to 1,995.10 in the Straits Times Industrial index aggravated by a decline in Metro Holdings, which traded ex-rights for the first time.

MANILA was lifted by Friday's advance of \$1% to \$42% in Philippine Long Distance Telephone on the American Stock Exchange. The composite index rose 10.28 to 1,776.07.

BOMBAY closed today for a Muslim holiday, fell 35.17 to 2,535.78 in thin trading.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY AUGUST 27 1993										THURSDAY AUGUST 26 1993										DOLLAR INDEX	
	US Dollar Index	Days Change %	Pound Sterling Index	Yes Index	Local Currency Index	Local % chg on index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yes Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)							
Australia (69)	146.05	-0.2	144.31	95.97	126.54	145.71	-0.5	3.45	145.30	143.89	96.55	126.38	144.89	146.94	117.39	131.40						
Austria (17)	171.52	-1.1	165.07	112.77	128.10	148.74	-0.3	4.43	148.97	148.97	97.94	128.71	130.49	148.17	171.81	131.16						
Belgium (42)	147.85	-0.4	146.09	97.15	128.10	129.44	-0.8	2.72	128.12	128.00	94.11	111.10	121.91	130.38	111.41	125.07						
Canada (102)	122.58	-0.4	128.04	83.81	110.51	122.41	-0.2	3.09	122.17	218.06	148.32	192.27	206.57	227.15	185.11	225.18						
Denmark (23)	222.02	-0.1	210.37	146.89	192.36	207.45	-0.3	0.89	112.94	111.07	74.54	97.94	118.56	82.50	81.04	81.04						
Finland (23)	111.25	-1.5	108.92	75.10	96.39	136.35	-0.8	3.01	108.90	184.20	110.18	144.77	153.01	142.72	157.28	157.28						
France (67)	167.93	+0.6	165.83	110.34	145.48	153.57	+0.4	1.85	129.87	121.82	81.78	107.42	107.42	124.34	101.59	116.76						
Germany (60)	124.16	+0.2	122.68	107.57	107.57	107.57	+0.1	3.39	282.01	288.17	193.38	204.11	291.58	281.01	218.82	231.12						
Hong Kong (55)	169.50	+0.1	169.50	169.50	169.50	169.50	+0.1	3.27	188.57	188.57	111.87	147.14	171.38	128.28	153.05	153.05						
Ireland (15)	169.99	+0.2	167.94	117.70	147.28	171.03	-0.2	1.74	70.39	67.61	81.98	81.98	81.98	78.38	83.81	83.81						
Italy (70)	78.88	+0.6	77.94	31.35	86.34	93.91	+1.0	0.79	157.33	154.73	103.83	136.48	103.83	100.75	112.20	112.20						
Japan (470)	159.51	+1.4	157.61	104.81	138.22	104.81	+0.9	1.80	295.78	379.41	254.58	334.54	378.73	251.86	234.19	234.19						
Malaysia (25)	357.51	+1.0	174.78	158.69	152.08	603.01	+1.1	0.82	177.18	177.18	115.23	191.02	177.18	141.03	131.61	131.61						
Mexico (19)	176.56	+0.4	161.00	102.37	158.72	158.72	+0.6	3.45	181.89	178.69	119.50	157.55	155.81	150.29	166.51	166.51						
Netherlands (24)	183.19	+0.8	181.00	102.37	158.72	158.72	+0.6	3.76	82.00	80.87	40.92	53.77	56.25	40.56	42.80	42.80						
New Zealand (13)	173.64	+0.5	171.57	114.10	150.45	170.87	-0.4	1.54	172.74	168.88	114.00	149.80	170.33	177.31	197.71	197.71						
Norway (22)	183.19	+0.8	181.00	102.37	158.72	158.72	+0.6	3.76	82.00	80.87	40.92	53.77	56.25	40.56	42.80	42.80						
Sweden (36)	134.29	+0.1	134.29	134.29	134.29	134.29	+0.1	1.53	181.74	178.29	119.51	157.17	161.72	142.21	137.48	137.48						
Singapore (18)	285.27	+0.2	281.86	197.45	240.33	199.59	-0.1	2.87	198.46	193.21	129.84	170.36	201.29	215.28	144.72	190.58						
South Africa (50)	194.23	+0.6	192.97	97.72	120.94	143.45	-0.9	2.90	139.64	139.64	91.33	120.27	142.21	139.58	115.23	130.47						
Switzerland (15)	135.50	+0.1	134.29	80.94	117.67	125.63	+0.7	1.75	135.96	133.71	88.73	117.42	123.78	135.66	108.01	113.03						
Taiwan (50)	182.67	+0.2	182.67	182.67	182.67	182.67	+0.2	2.72	188.57	188.57	111.87	147.14	171.38	128.28	153.05	153.05						
Thailand (18)	158.10	+0.1	158.10	158.10	158.10	158.10	-0.1	2.72	188.57	188.57	111.87	147.14	171.38	128.28	153.05	153.05						
USA (100)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
UK (100)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
West Germany (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
France (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Italy (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Spain (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Japan (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
South Korea (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
India (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
China (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Indonesia (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Philippines (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Singapore (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Taiwan (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Thailand (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
USA (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
UK (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
West Germany (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
France (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Italy (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Spain (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Japan (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
South Korea (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
India (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
China (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Indonesia (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Philippines (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Singapore (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Taiwan (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Thailand (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
USA (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
UK (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
West Germany (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
France (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Italy (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Spain (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Japan (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
South Korea (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
India (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
China (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Indonesia (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Philippines (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Singapore (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00						
Taiwan (50)	100.00	0.00	100.00	100.00	100.00	100.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00								

AUTHORISED UNIT TRUSTS

AHS Truck Tractor Managers Limited (100%)			
54 Belmont Rd, Ladbroke, Wexford	US\$ 142	US\$ 297	
AHS (Ireland) (Holding) Ltd	198.0	158.2	165.8
AHS (Ireland) (Finance) Ltd	221.0	234.2	217.2
AHS (Ireland) (Leasing) Ltd	172.0	180.3	189.8
AHS (Ireland) (Trucks) Ltd	107.6	108.3	113.1
AHS (Ireland) (Trucks) Ltd	78.7	78.7	78.7
AHS (Ireland) (Trucks) Ltd	183.4	183.4	183.4

[illegible]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	3006	3007	3008	3009	3010	3011	3012	3013	3014	3015	3016	3017	3018	3019	3020	3021	3022	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032	3033	3034	3035	3036	3037	3038	3039	3040	3041	3042	3043	3044	3045	3046	3047	3048	3049	3050	3051	3052	3053	3054	3055	3056	3057	3058	3059	3060	3061	3062	3063	3064	3065	3066	3067	3068	3069	3070	3071	3072	3073	3074	3075	3076	3077	3078	3079	3080	3081	3082	3083	3084	3085	3086	3087	3088	3089	3090	3091	3092	3093	3094	3095	3096	3097	3098	3099	3100	3101	3102	3103	3104	3105	3106	3107	3108	3109	3110	3111	3112	3113	3114	3115	3116	3117	3118	3119	3120	3121	3122	3123	3124	3125	3126	3127	3128	3129	3130	3131	3132	3133	3134	3135	3136	3137	3138	3139	3140	3141	3142	3143	3144	3145	3146	3147	3148	3149	3150	3151	3152	3153	3154	3155	3156	3157	3158	3159	3160	3161	3162	3163	3164	3165	3166	3167	3168	3169	3170	3171	3172	3173	3174	3175	3176	3177	3178	3179	3180	3181	3182	3183	3184	3185	3186	3187	3188	3189	3190	3191	3192	3193	3194	3195	3196	3197	3198	3199	3200	3201	3202	3203	3204	3205	3206	3207	3208	3209	3210	3211	3212	3213	3214	3215	3216	3217	3218	3219	3220	3221	3222	3223	3224	3225	3226	3227	3228	3229	3230	3231	3232	3233	3234	3235	3236	3237	3238	3239	3240	3241	3242	3243	3244	3245	3246	3247	3248	3249	3250	3251	3252	3253	3254	3255	3256	3257	3258	3259	3260	3261	3262	3263	3264	3265	3266	3267	3268	3269	3270	3271	3272	3273	3274	3275	3276	3277	3278	3279	3280	3281	3282	3283	3284	3285	3286	3287	3288	3289	3290	3291	3292	3293	3294	3295	3296	3297	3298	3299	3300	3301	3302	3303	3304	3305	3306	3307	3308	3309	3310	3311	3312	3313	3314	3315	3316	3317	3318	3319	3320	3321	3322	3323	3324	3325	3326	3327	3328	3329	3330	3331	3332	3333	3334	3335	3336	3337	3338	3339	3340	3341	3342	3343	3344	3345	3346	3347	3348	3349	3350	3351	3352	3353	3354	3355	3356	3357	3358	3359	3360	3361	3362	3363	3364	3365	3366	3367	3368	3369	3370
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INITIAL CHARGE: *Charges made on sale of* **HISTORIC PRICING:** *The former U. S. demand*

administrative costs, including commission paid to intermediaries. This charge is included in the

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The premium spread between the offer and bid values is determined by

the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained from all

TIME: The time shown alongside the fund

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

55 Life Assurance and Unit Trust
Regulatory Organisation,
Centre Point,

103 New Oxford Street, London WC1A 10JH
Tel: 071-779-0444.

[illegible]

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1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405</
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	Old Price	Order Price	Tier Gro
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Deutsche Bank	218.75	220.25	-	42101	Post World Credit	218.75	220.25	-	42101	Post World Credit	218.75	220.25	-	42101
Per Money	198.25	200.75	-	42177	Per Money	198.25	200.75	-	42177	Per Money	198.25	200.75	-	42177
ASGN Life Assurance Co (UK) Ltd					ASGN Life Assurance Co (UK) Ltd					ASGN Life Assurance Co (UK) Ltd				
Other Funds					Other Funds					Other Funds				
Equity Units	1170.00		-	41016	Equity Units	1170.00		-	41016	Equity Units	1170.00		-	41016
Heritage Property	78.50	83.10	-	41911	Heritage Property	78.50	83.10	-	41911	Heritage Property	78.50	83.10	-	41911
Int Currency Bond	184.2	194.0	-	41912	Int Currency Bond	184.2	194.0	-	41912	Int Currency Bond	184.2	194.0	-	41912
Equity	104.9	106.4	-	42121	Equity	104.9	106.4	-	42121	Equity	104.9	106.4	-	42121
Europe	351.1	353.0	-	42122	Europe	351.1	353.0	-	42122	Europe	351.1	353.0	-	42122
Fixed Interest	486.5	503.7	-	42123	Fixed Interest	486.5	503.7	-	42123	Fixed Interest	486.5	503.7	-	42123
International	350.8	370.5	-	42124	International	350.8	370.5	-	42124	International	350.8	370.5	-	42124
Asia	194.9	197.2	-	42125	Asia	194.9	197.2	-	42125	Asia	194.9	197.2	-	42125
North America	180.0	181.2	-	42126	North America	180.0	181.2	-	42126	North America	180.0	181.2	-	42126
Japan	117.0	118.0	-	42127	Japan	117.0	118.0	-	42127	Japan	117.0	118.0	-	42127
Europe	351.1	353.0	-	42128	Europe	351.1	353.0	-	42128	Europe	351.1	353.0	-	42128
Fixed Interest	486.5	503.7	-	42129	Fixed Interest	486.5	503.7	-	42129	Fixed Interest	486.5	503.7	-	42129
International	350.8	370.5	-	42130	International	350.8	370.5	-	42130	International	350.8	370.5	-	42130
Asia	194.9	197.2	-	42131	Asia	194.9	197.2	-	42131	Asia	194.9	197.2	-	42131
North America	180.0	181.2	-	42132	North America	180.0	181.2	-	42132	North America	180.0	181.2	-	42132
Japan	117.0	118.0	-	42133	Japan	117.0	118.0	-	42133	Japan	117.0	118.0	-	42133
Europe	351.1	353.0	-	42134	Europe	351.1	353.0	-	42134	Europe	351.1	353.0	-	42134
Fixed Interest	486.5	503.7	-	42135	Fixed Interest	486.5	503.7	-	42135	Fixed Interest	486.5	503.7	-	42135
International	350.8	370.5	-	42136	International	350.8	370.5	-	42136	International	350.8	370.5	-	42136
Asia	194.9	197.2	-	42137	Asia	194.9	197.2	-	42137	Asia	194.9	197.2	-	42137
North America	180.0	181.2	-	42138	North America	180.0	181.2	-	42138	North America	180.0	181.2	-	42138
Japan	117.0	118.0	-	42139	Japan	117.0	118.0	-	42139	Japan	117.0	118.0	-	42139
Europe	351.1	353.0	-	42140	Europe	351.1	353.0	-	42140	Europe	351.1	353.0	-	42140
Fixed Interest	486.5	503.7	-	42141	Fixed Interest	486.5	503.7	-	42141	Fixed Interest	486.5	503.7	-	42141
International	350.8	370.5	-	42142	International	350.8	370.5	-	42142	International	350.8	370.5	-	42142
Asia	194.9	197.2	-	42143	Asia	194.9	197.2	-	42143	Asia	194.9	197.2	-	42143
North America	180.0	181.2	-	42144	North America	180.0	181.2	-	42144	North America	180.0	181.2	-	42144
Japan	117.0	118.0	-	42145	Japan	117.0	118.0	-	42145	Japan	117.0	118.0	-	42145</

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هكذا من الإسلام

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Focus on the dollar

AFTER THE recent debate in the exchange rate mechanism, there are signs that the market's attention could focus more intensely on the dollar, writes James Blitz.

The US currency appeared to be at a turning-point against the DM on Friday night. For the second day running, it closed below the DM1.67 level against the German currency.

UK clearing bank base lending rate 6 per cent from January 25, 1993

Some analysts have seen that as an important level. The dollar spent the first six months of this year trying to break through that first point. Two sets of data in the US will determine whether the dollar chooses the upside or downside from this level. Tomorrow's National Association of Purchasing Managers' survey could point to only moderate output growth. An even more significant indicator will be the August

non-farm payroll, with the market expecting a rise of 150,000 in the month. This indicator is regularly seen as the most important indicator for the dollar in the US market. Mr Paul Chertkow, US currency strategist at UBS, believes a strong figure will give the US currency strong support.

The research team at Swiss Bank is more sceptical about the dollar. In its new weekly bulletin on investment strategy, Swiss Bank forecasts that a break towards or below its year-end target of DM1.60 will place next month. Much will depend, of course, on data coming out of Germany. The Bundesbank has given a very strong indication that it intends to keep policy on hold for some time. However, the industrial output indicator for July is due out this week.

This is expected to show an 8 per cent drop on the year, adding to pressure on the Bundesbank to stimulate the German economy by easing interest rates.

POUND SPOT - FORWARD AGAINST THE POUND

Aug 27	Day's spread	Close	One month	Three months	Six months	One year
US	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Germany	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
France	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Italy	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Spain	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Japan	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Sweden	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Switzerland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Denmark	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Netherlands	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Belgium	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Austria	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Greece	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Portugal	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Ireland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Finland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
South Korea	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
India	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Singapore	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Malaysia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Thailand	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Philippines	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Indonesia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Brunei	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Mexico	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Colombia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Venezuela	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Argentina	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Chile	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Peru	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Ecuador	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Bolivia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Paraguay	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Uruguay	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Costa Rica	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Panama	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Honduras	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
El Salvador	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Nicaragua	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Guatemala	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Belize	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Jamaica	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Trinidad and Tobago	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Barbados	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Guyana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Suriname	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
French Guiana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Guadeloupe	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Martinique	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Reunion	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Mayotte	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Senegal	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Gambia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Sierra Leone	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Liberia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Ivory Coast	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Ghana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Togo	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Benin	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Niger	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Chad	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Camerun	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Cote d'Ivoire	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Upper Volta	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Botswana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Lesotho	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Swaziland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Mozambique	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Malawi	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Zambia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Angola	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Namibia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Botswana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Lesotho	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Swaziland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Mozambique	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Malawi	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Zambia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Angola	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Namibia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Botswana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Lesotho	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Swaziland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Mozambique	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Malawi	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Zambia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Angola	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Namibia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Botswana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Lesotho	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Swaziland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Mozambique	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Malawi	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Zambia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Angola	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Namibia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Botswana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Lesotho	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Swaziland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Mozambique	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Malawi	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Zambia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Angola	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Namibia	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Botswana	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Lesotho	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
Swaziland	1.6652	1.6652	1.6652	1.6652	1.6652	1.6652
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FINANCIAL TIMES TUESDAY AUGUST 31 1993

INVESTMENT

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NASDAQ NATIONAL MARKET

4 pm circa August 21

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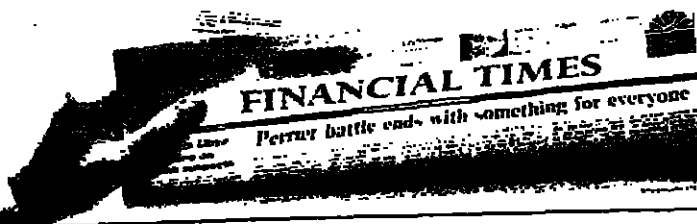
AMEX COMPOSITE PRICES

4 pm close August 30

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THE FT INTERVIEW

Germany's young pretender

Rudolf Scharping, leader of the opposition Social Democrats, speaks to Quentin Peel

On the wall of the state premier's office in Mainz, capital of Germany's Rhine-land-Palatinate, hangs a large and rather faded Gobelin tapestry. It has been there since the days when Mr Helmut Kohl, German chancellor, was the first man in the land.

I confess that I don't find it very beautiful," says Mr Rudolf Scharping, the current incumbent of the office. "I'm planning to replace it with this," he says, producing from behind his desk an austere but striking Andy Warhol original, recently presented by a friend. The painting features three champagne glasses, two of them overturned, one upright. "It seems rather appropriate," he says.

Just so. For Mr Scharping emerged in June as the clear victor in a three-way race for the leadership of Germany's opposition Social Democrats. Since then he has moved rapidly to consolidate his position, persuading his principal rivals to back him as party candidate for Chancellor.

The fact that he has still not quite set his personal seal on his office in Mainz, since he defeated Mr Kohl's Christian Democratic Union in state elections in April 1991, is also perhaps appropriate. For his sights are now set on Bonn, and the race to displace Mr Kohl in next year's national elections.

It is going to be an uphill struggle, the young pretender against the old campaigner. The SPD has been floundering in the opinion polls, locked in inner-party debates, and shaken by the resignation of its former leader, Mr Bodo Erhard, because of a local political scandal, just when it should have been leading the CDU. The economy is in the doldrums: unification, Mr Kohl's great achievement, is proving painful in both east and west; and Mr Kohl himself, in office for 11 years, is blamed for lack of leadership.

Yet Mr Scharping, dapper, neatly-bearded and articulate, but uninspiring in delivery, immediately sees his own election as SPD leader - in the first poll of grassroots party members - as a potential turning-point. He could be right.

"The SPD is suddenly more hopeful," he says. "June 13 (the day of the leadership poll) was a great relief. All this dis-

content and anxiety, if not completely wiped out, has at least become much less important. Now we must try to use this new enthusiasm."

He has to overcome the natural inclination of the left-wing Social Democrats to self-destruct in internecine warfare, to counter the impression that social democracy has no role, since the collapse of communism; and to shake-off an immediate inclination of the media to label him as a mini-Helmut Kohl - a cautious man of consensus and career politician, leading from behind.

Since June he has shown he can act decisively, swiftly appointing an election team to unite the party.

Now he has to deal with the issues, and raise his public profile. It is easier said than done. Last week he suffered his first reverse, when his party colleagues refused to back a move to relax their objections to the Bundeswehr (military) becoming a full participant in UN operations.

"It is embarrassing," he admits, "but it is also absurd that a significant part of our whole debate on foreign relations should be concerned exclusively with military matters: that is a dangerous limitation. A foreign policy which fails to keep focused on the economic, social and political stabilisation of eastern Europe, which loses sight of the north-south divide, and therefore loses sight of the real causes of worldwide migration of peoples, that is no foreign policy at all."

He argues that the answer lies in strengthening the UN itself. "As it gets stronger, and its activities become UN activities, and not merely the extended arm of a single member state, then it will be easier to see its activities as part of a genuine common security. That is a concept the SPD has always had in mind."

The next tough issue he has to deal with is the question of curbing the explosion of social welfare costs. He knows that his party cannot continue simply to oppose all cuts in social spending, at a time when the budget deficit, fuelled by the costs of unification, is soaring.

"The government is trying to cut social spending at the expense of the people who can least afford it, the homeless and the unemployed," he says. "That is unacceptable. It won't create more jobs or houses. We



'The SPD is suddenly more hopeful'

need to ask what payments are necessary, which people need them, and at what income level should they be paid." That means more means testing. As a state premier responsible for attracting investment to his own area, he is acutely conscious of the debate over the high costs, and declining competitiveness, of Germany as an investment location. He does not think the answer lies in going back to a 40-hour week.

PERSONAL FILE

1947 Born Niederelbert in the rural Westerwald

1966-74 Studied political science, law and sociology at Bonn university.

1966 Joined SPD. Became state chairman and national deputy chairman of Jusos (Young Socialists).

1975 Elected to state parliament of Rhineland-Palatinate.

1985 Party leader of SPD in Rhineland-Palatinate.

1987 Defeated in state elections; opposition leader.

1991 Election victory ends 44 years of Christian Democratic rule in Rhineland-Palatinate.

1993 Victor in ballot for national party leader of SPD. Confirmed at party congress.

He does think there should be far more flexibility. "Some international companies are much more imaginative about this than the political establishment," he says, citing the example of IBM in Mainz.

He sees the idea of "social dumping" - seeking to attract new investment by offering lower wage costs, including social costs, to companies - as self-defeating. "It won't work in Germany, France, the Benelux countries or Great Britain," he says. He wants the Maastricht

treaty put into effect, and he wants Britain to sign on to the social chapter. "But I don't have any advice to give," he insists. "Britain must decide for itself." As for economic and monetary union, "Nobody in Europe should make themselves slaves to a timetable."

What European co-operation needs to focus on is joint action to tackle the technological deficit. "I remember 15 years ago books appeared in the US calling Europe the sclerotic continent. We were dying of old age, and would perish. It has not happened."

"But I am in favour of the Europeans discovering their common interests. One problem we all share is that in product innovation we must make greater efforts. We should do that together. Our key industries of the future, like micro-technology, computers, electronics, genetic technology and bio-technology, are too weak. We cannot just sit back. If we do, we will learn very painfully that these strengths can be acquired by others, too."

Mr Scharping's predecessor as SPD leader, Mr Erhard, was probably more telegenic. He was also an instinctively gloomy, pipe-smoking northerner. Mr Scharping doesn't fiddle with a pipe. Instead, he sits calmly eating a peach in the middle of the interview. Unlike Mr Erhard, he also knows the dangers of excessive pessimism. It lost the SPD the last election, because they spelt out the costs of unification all too bluntly.

"There are far too many people in Germany who just talk in terms of tasks and problems and difficulties, and not about opportunities and challenges," he says. "I don't underplay the problems, but for me, unification is not just an historic

opportunity, it is also an extraordinary challenge."

"That should not prevent one saying what needs to be done, in order to turn that opportunity into reality. Most people who vote in elections are voting for a hope, for a vision of a future, not a reckoning with the past. It's the job of the SPD to give a realistic hope for the future."

The media is obsessed with the likelihood of Scharping and Kohl working together in a grand coalition after the next election. But the SPD man won't be drawn. "The chances are very small," he says. "The polls don't tell us much about what could happen next year. If I believed the polls I would never be sitting here."

"Things will only get better in Germany if the SPD gets stronger. That is what I am concentrating on right now. Whoever eventually may offer to help the SPD take power, that can be decided after the next elections."

Such measures should help.

Read Clinton's lips: No more welfare

President Bill Clinton's pledge to "end welfare as we know it" was one of the most popular lines in last year's election campaign. His idea of a strict two-year time limit on welfare cheques appealed to voters (especially "Reagan democrats") not just as a way of cutting government spending and thus reducing taxes, but as a solution to the nation's most pressing social problems.

In the American mind, welfare has become synonymous with such evils as urban decay, fatherless children, drug abuse and violent crime. By promising radical welfare reform, Mr Clinton was sending a powerful subliminal message: he would wage war on all the diseases that are ravaging urban society.

Since becoming president, Mr Clinton has barely mentioned the word welfare, raising fears that his grandiose promise will prove as cynical as former President George Bush's "read my lips: no new taxes" pledge.

The White House insists that welfare reform is not forgotten, but has just had to take its turn behind two even more urgent priorities: the deficit reduction plan finally approved this month and the healthcare reform scheduled for September. It claims both measures will help shift people off welfare by "making work pay."

The budget advanced this cause by expanding the earned income tax credit (a kind of negative income tax). This gives poor working families a cash bonus of up to \$2,500 a year, increasing the incentive to take low paid jobs. If healthcare reform guarantees health insurance for all workers, welfare recipients will no longer be able to reject jobs on the grounds that they stand to lose their health care benefits.

In addition, the administration promises to bolster the economic position of welfare mothers by strictly enforcing laws requiring absent fathers to support their children financially.

Such measures should help.



MICHAEL PROWSE
ON AMERICA

But they are hardly going to solve America's welfare problem, which differs substantially from that in Europe.

In keeping with Franklin Roosevelt's dictum that a permanent dose is "a narcotic, a subtle destroyer of the human spirit", the US has never provided permanent welfare support for single, able-bodied adults. When pundits talk of a "culture of welfare" they are referring mainly to the \$20bn spent on Aid for Families with Dependent Children, a benefit received by 5m single-parent families. The objection is not that some families in straitened circumstances need AFDC as a short-term prop, but that half of those on welfare behave as though they have a meal ticket for life.

So what should Mr Clinton do?

Many conservatives favour the concept of a strict time limit. Once people accept that benefits are not going to be paid indefinitely, they argue, behaviour will change. Teenagers will stop having babies and start recognising the economic advantages of marriage. Those whose welfare benefits expire will face a stark choice: accept low-paid employment or hand over children for adoption. At first the adjustment will be horribly painful but in the longer term society will gain enormously because destructive lifestyles will no longer be underwritten. With its economic life support system (welfare) ripped away, the underclass will shrivel.

But no modern president would contemplate so brutal a social experiment. If welfare stops, something has to take its place. One suggestion is that Mr Clinton should follow the example of Roosevelt's Works Progress Administration, an agency that at its peak created over 3m public sector jobs. After two years, welfare cheques would thus be replaced by the offer of a government job at a slightly below the private sector minimum wage. Mothers with young children would also be offered state child care facilities. According to one advocate, this would amount to replacing the welfare state by the "work ethic state".

This solution is more appealing than a mere cessation of benefits. But it would involve a huge expansion of public sector employment and cost perhaps \$50-60bn a year, far more than the Clinton administration is willing to spend on welfare reform.

Fortunately there is a fall back position for Mr Clinton: the bipartisan Family Support Act of 1988, which he helped steer through Congress. This recognised the impossibility of ending welfare overnight and instead set targets for the gradual introduction of "workfare". Next year states will receive federal assistance only if they ensure that at least 15 per cent of the "employable" welfare case load is working or in training programmes; by 1995 the required ratio rises to 20 per cent. These seemingly undemanding targets require a much larger fraction of the welfare population to take jobs at some point during the year.

Mr Clinton could tighten the definition of "employable", so as to include mothers with children under the age of three, and set more demanding workfare participation targets, for example that 50 per cent of welfare recipients should be working or in training by the year 2000. Such a gradualist approach would be both humane and cost effective. The only trouble is that it falls far short of the presidential promise to "end welfare as we know it". Like Mr Bush, Mr Clinton may have raised expectations that simply cannot be met.

China's wounded spirits

It is Saturday night in a gloomy Beijing hall. Dozens of men and women line the walls, observing and chatting while a few couples wait to the music of Strauss.

This is a Beijing singles club, and the atmosphere could hardly be further removed from the raucous karaoke bar culture that has mushroomed in Chinese cities: nor does the scene bear much relation to the image of modern China projected by the media.

To an extent, the club is a casualty ward of the enormous social change sweeping China that is producing its share of wounded spirits and broken dreams. Madam Wen, a 37-year-old accountant, becomes tearful as she explains that, after 12 years of marriage, her husband has abandoned her for another woman. "Traditional values are being swept away," she says.

Madam Wang Xingjuan, a women's activist and founder of the Beijing singles club, believes that, while economic liberalisation and opening to the outside world have brought many benefits to China, some women have been victims of change.

For a start, the divorce rate has gone up sharply, especially in urban centres like Beijing, rising from 2.1 per cent of marriages in 1981 to 17.7 per cent in 1992. Nationally, marriage failures reached 8.7 per cent last year, low by international standards, but a big increase on previous rates and still rising.

One of the main causes of the rapid increase in the divorce rate, according to Madam Wang, is growing afflu-

ence, which is loosening family bonds. "Men are better off and are looking for lovers. They are losing their sense of responsibility," she says. "They are being influenced by western television programmes with their sexy scenes. Extramarital sex is commonplace."

Prostitution on a fairly big scale has also returned to Chinese cities, perhaps further complicating family relationships. According to Madam Wang, some 200,000 prostitutes were detained last year throughout China, but she estimates that numbers of prostitutes nationwide exceed 1m.

Reaction to a National Women's Hot Line reveals a widespread desperation among urban women over the enormous change in their lives. While life might have been fairly drab in the past, there was more certainty, more stability.

Forty per cent of callers wish to talk about marriage problems, including divorce. Madam Wang and her assistants urge conciliation, but if the marriage has broken down irretrievably they advocate divorce, which has become much simpler in China since the passage in 1980 of a new divorce law.

Previously, social and political pressures, plus the difficulty of securing legal approval for a divorce, had condemned many unhappy couples to stay together. During the Mao era divorce was denounced as bourgeois, and the careers of those who dared

to separate were jeopardised.

Madam Chen Yiyun, a sociologist with the Chinese Academy of Social Sciences and one of China's leading researchers on women's issues, says that, before China's opening to the outside world in 1978, there were basically two categories of women: urban and rural. Now she identifies four types of urban women.

These include those who have gone into business themselves or who work for joint venture companies; middle-aged women who are relatively uneducated and who have most difficulty coping with change; professional women who are established and do not feel threatened by the changes; and older women whose marriages and lives are fairly settled, and therefore are relatively unaffected.

It is women in the second category who are proving most vulnerable. "Many of these middle-aged women feel lost and confused," says Madam Chen. "Many have worked in state-run factories, but have been fired. It's very hard for them to find a job, and start a new life." Estimates suggest there are 20m excess labourers in Chinese factories, 70 per cent of whom are women.

Another problem in urban Chinese society is the surfeit of well-educated single women, and this in turn is adding to pressures on existing families. This excess of women in their 30s and early 40s can be attributed to several factors, among

them that many young men sent to the countryside in the 1950s during the Cultural Revolution never returned to the cities. Thousands of men have also drifted away from cities like Beijing to make their fortunes in the booming southern coastal towns like Shenzhen and Hainan Island.

Of the 1,000 members of the Beijing singles club, 60 per cent are women, and almost all are professionals. Most, if not all, are looking for a husband. Typical is 38-year-old Miss Sun, a magazine editor, who feels under pressure from her family to marry, but has been unable to find the right man.

"The situation is difficult for women today in Chinese society," she says. "We are still governed by traditional values, where society looks up to men and down on women. In the allocation of housing, for example, women are always last to get their own place." Miss Sun is obliged to live in a dormitory, sharing a room with another girl.

Madam Chen says that while it seems that men have benefited from the radical changes in Chinese society more than women, many men are feeling stressed by the pressures of the new consumer age.

"You get so much, earn so much, but you also sacrifice so much," she says. "Men are complaining that their wives are buying more clothes and cosmetics. Before, men did not feel so pressured."

At the Beijing club each Saturday, couples in their best clothes dance on, hoping that this might be their lucky day.

Tony Walker

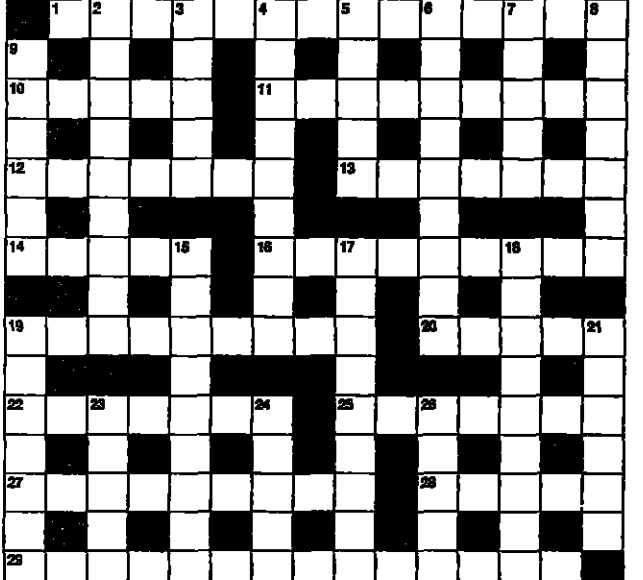
Of broking and jolting the Pelikan's fond.
See how sweetly he puts your word onto bond.

Pelikan

JOTTER PAD

CROSSWORD

No.8,241 Set by QUARK



- ACROSS
- A familiar thing, e.g. home (11,6)
 - Start being silly (5)
 - Showing opposition to current trends? (9)
 - Rum sells in situation of poor health (7)
 - One to go wrong first in money for land (7)
 - Pick-me-up used in accident on ice? (6)
 - I am to negotiate present (9)
 - Rescinded (doing a U-turn) and made out (9)
 - Opera cast performing (including the ring) (5)
 - Plain and endless food belt (7)
 - Shaky Revised Version following English, in short no use (7)
 - Its water rate's high (9)
 - Lowest point in a road receiving repair (5)
 - Wins everything, yet has brushes with the committee? (6,3,5)
- DOWN
- 2 District up in Scotland (9)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 11.

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How the Proton car company has towed Malaysia towards industrialisation PAGE IV

FINANCIAL TIMES SURVEY

MALAYSIA

Tuesday August 31 1993

Old Malacca is an exotic museum filled with relics of rival empires PAGE V

For five years Malaysia's GDP has grown by more than 8 per cent a year as it switched to manufacturing from a commodities-based economy. But it is now proving much harder to capture overseas investment for its next phase of expansion, reports Kieran Cooke

Sweet smell of success

THE earth movers and diggers are hard at work on the old racetrack in the centre of Kuala Lumpur. A new city centre is being built which will include what is being billed as one of the world's tallest buildings - a 450 metre twin tower complex which, when completed in 1998, will be higher than New York's World Trade Centre or the Sears Tower in Chicago.

Critics say the city centre project is proof that the government of Dr Mahathir Mohamad, the prime minister, is carried away by its own economic success, full of grandiose, ill conceived, schemes.

To the government and its many supporters, the new city centre will be a monument to the new Malaysia, a country standing tall with its economy growing to join the ranks of industrialised nations.

Even the critics cannot ignore the considerable progress made in Malaysia in recent years. Overall GDP has grown by more than 8 per cent in each of the last five years.

Malaysia has been transformed from a commodity based to a manufacturing economy. In the mid 1990s tin and rubber accounted for nearly 80 per cent of export earnings. Last year the manufacturing sector accounted for 70 per cent of the value of exports.

"There is no doubt that had we remained with tin and rubber, we would be a basket case

today," said Dr Mahathir recently. "Moving into manufacturing saved us."

Living standards have improved: per capita incomes have increased from \$350 in 1970 to nearly \$3,000 last year.

Foreign investors have poured hundreds of millions of dollars into Malaysia, attracted by the country's political stability and its generally low wage regime.

The government's goal now - called "Vision 2020" - is full industrialisation by the year 2020 - with an economic growth rate of 7 per cent in each of the next 27 years.

There are few more compelling images of modern Malaysia than that of Dr Mahathir, sitting confidently in the back of his official limousine, a Malaysia-made Proton car: the number plate on the car is 2020.

But there are those who question whether Dr Mahathir's vision can be turned into reality.

One of the key factors in Malaysia's recent success has been foreign investment. In 1990/91 foreign companies were investing about \$1.7bn (\$6.6bn) per year in Malaysia, representing well over half annual total investments.

In the first six months of 1993 foreign investments were only \$51.6bn.

The continuing problems being faced by the industrialised countries is one reason for the decline in inward



The Proton car works is the instrument and symbol of Malaysia's rapid industrialisation and emergence as a world-class motor exporter

investment. But Malaysia is also in danger of losing out in the competitiveness stakes, particularly to the fast emerging economies in the region such as China and Vietnam.

Recently productivity has not been keeping pace with wage rises. This not only deters investors - it also jeopardises Malaysia's export competitiveness.

Dr Mahathir and his officials constantly preach the need to restrain wage increases. Union activity is strictly controlled. But having been told so often of their country's economic success, workers want to have a share of the benefits.

The situation is exacerbated by growing labour shortages which, in many industries, have become a serious impediment to further growth.

The short term solution is the government's tacit acceptance of about 10 illegal foreign workers in the country. But the long term presence of such a large group of foreigners could lead to serious social problems and upset Malaysia's

delicate racial balance.

The more lasting solution proposed by the government is to go into more capital intensive, sophisticated, value added industries - much as Singapore decided to do some years ago. But while Malaysia has developed expertise in a number of fields - mainly in the commodities sector - much of its industry still lacks depth and know how.

The problems are well recognised. "Malaysia is lamentably weak in research and the application of new technology," says Dr Mahathir.

Education is a problem area. For the next phase of its development Malaysia needs an ever bigger pool of highly qualified engineers, technicians and managers. But these are not being produced in anything like sufficient numbers.

Government critics blame the New Economic Policy (NEP), introduced in the early 1970s, for many present problems. The NEP emphasised discrimination in favour of the Malays, the dominant racial

group in the country. The Chinese, who make up about 35 per cent of the population, controlled most economic activity in the country. The idea was to give the Malays a greater share of the economic cake.

The policy was a partial success. According to official figures Malays controlled about 30 per cent of corporate equity by 1990.

But critics say the NEP gave rise to more problems than it solved. With Malays favoured in education, for jobs in both government and the private sector, a large measure of competitiveness was removed from the system and standards fell. Meanwhile the Chinese, Indians and other groups were made to feel like second class citizens.

The NEP is also blamed for giving rise to an uncompetitive business culture. Dr Mahathir himself frequently berates the Malays for their "get rich quick" attitude and their lack of entrepreneurial zeal.

Government policy has now changed, emphasising growth

rather than discrimination as the principal means of achieving a level of economic equality between the races. But the old ways live on. In business, political connections with the Malay dominated government are often more important than commercial competitiveness.

In part economic success has helped alleviate some of the tensions between the races. But there is still a question mark over whether government policy has made Malaysia a more equal, less racially segregated society.

The Chinese still control a large slice of the country's economic life and sit on a considerable pile of capital. That capital now needs to be invested in the country's future.

The government speaks of the need to "wean" the country off foreign investment and depend more on domestic capital resources. But many Chinese remain hesitant, still wondering about their place in Malaysian society. Last year domestic investment fell by more than 30 per cent and

shows signs of an even steeper fall this year.

Sensitivities about racial or political questions and a heavily government influenced media mean that there is little or no public debate on these issues. Government opponents accuse the government of sensing conspiracy in any criticism - even when things have gone obviously wrong.

In March it was revealed that Bank Negara, the central bank, had incurred a "paper loss" of about \$12.8bn (\$4bn) last year, most of it due to speculations on the foreign exchange markets.

Dr Mahathir dismissed criticism of the bank's operations. Opposition calls for a full inquiry into the bank's activities were brushed aside. Yet there is no doubting the disquiet the issue caused in both the local and foreign financial community.

Sensitivity to criticism is also evident in Malaysia's dealings with the outside world. Dr Mahathir has tilted at many windmills: he continues to attack the industrialised world, the US in particular, for what he considers to be double standards on human rights and environmental questions.

Malaysia remains deeply suspicious of what it feels is a protectionist trade campaign directed against developing countries by the richer nations.

Dr Mahathir continues to lobby hard for recognition of an "East Asia Economic Caucus" (EAEC) - to counter the activities of perceived western trading blocs. Other nations in the region tend to feel Malaysia has, at times, a rather exaggerated view of its own importance and do not necessarily share Dr Mahathir's views. So far the EAEC has met with only a guarded response.

But, hubris or not, Malaysia marches on. Its economy seems likely to grow at close to 8 per cent again this year. Kuala Lumpur's new city centre project is going ahead full steam.

Malaysia is still breathless from its first sprint up the economic ladder. But as it loses many of the competitive advantages it has enjoyed in the past, the upward climb will get considerably tougher.



□ The National Monument in the capital, Kuala Lumpur

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■ The loneliness of the long-running Prime Minister; table of national facts and statistics PAGE II

■ Economic consolidation becomes the order of the day; east coast development drive PAGE III

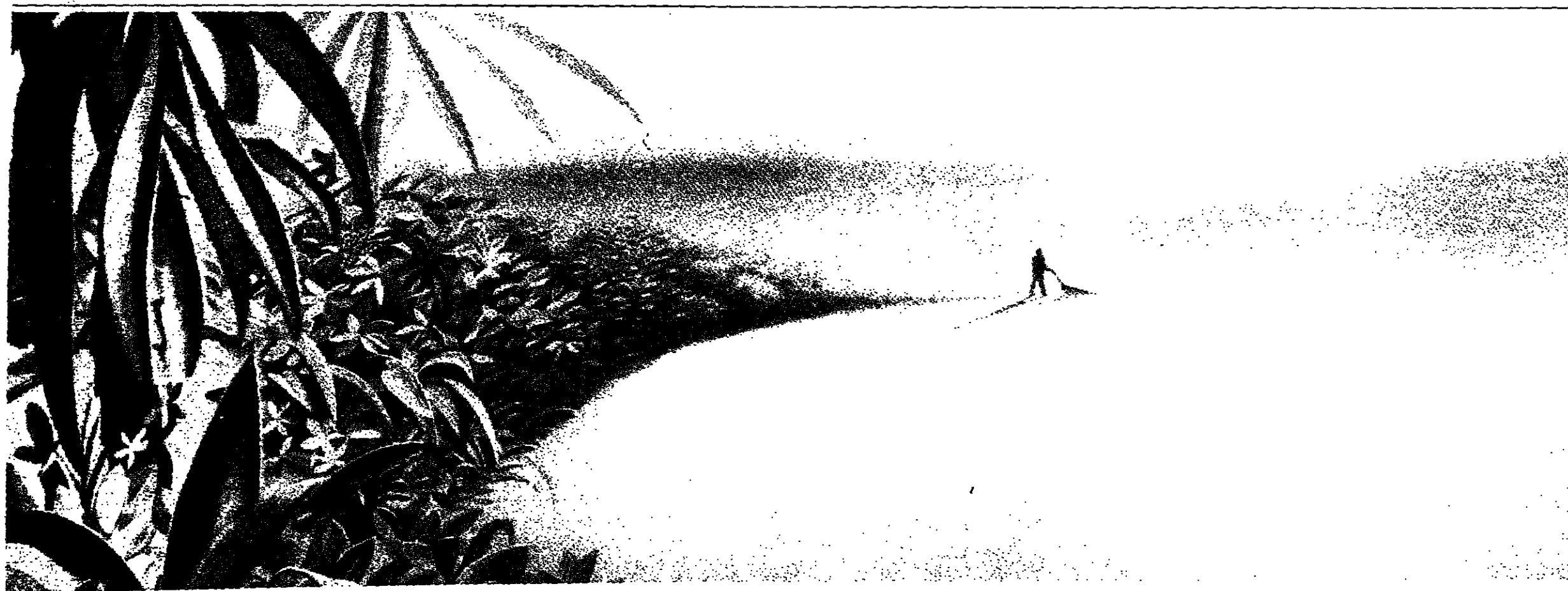
■ Proton motors: an engine of national industrialisation; profile of the 39 year-old head of Proton; records fall at the Kuala Lumpur stock exchange; progress of the Labuan offshore financial centre PAGE IV

■ A strained infrastructure tries to keep pace with economic growth; when the lights go off; Malacca's bizarre legacy PAGE V

■ Sabah's sensitive racial balance is changing; timber producers face wrath of Greens PAGE VI

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MALAYSIA II

Premier Mahathir is in no hurry to retire, but there is talk of who will succeed him, says Kieran Cooke

The political cauldron is simmering

IN mid July Dr Mahathir Mohamad, the Malaysian prime minister, arrived back in Kuala Lumpur after a three day official visit to Albania. The prime minister's jet touched down at 7.30pm. By 9pm Dr Mahathir was in his office, chairing a cabinet meeting.

Dr Mahathir, 67, sets a bruising pace. Though he had open heart surgery in 1989, the prime minister, in power for the past 12 years, shows no sign of wishing to retire. "As long as I'm welcome and the people want me, I'll serve," said Dr Mahathir in a recent interview.

Yet these days Malaysia is bubbling with talk about the succession. The political temperature is rising, the rumour mill is working overtime.

At issue are elections in November in the United Malays National Organisation (UMNO), the country's dominant political party and main grouping within the ruling Barisan Nasional (National Front) coalition government.

By tradition, the head of UMNO is also prime minister. It's very unlikely that Dr Mahathir's position as party head will be challenged in these elections. But there is an increasingly bitter battle for the posts immediately below Dr Mahathir, particularly the number two position. The theory is that whoever emerges as deputy will one day inherit the Mahathir mantle.

There are two main contenders for the position of UMNO deputy leader - Mr Ghafar Babar, the present incumbent, and Mr Anwar Ibrahim, the finance minister.

A genial, rotund man who makes no claims to great intellectuality, Mr Ghafar, 68, describes himself as "just a kampung (village) boy". He has been an UMNO party stalwart for many years. Look at the old black and white pictures of the early Malay leaders and Mr Ghafar is there, urging the crowds to fight for independence from British colonial rule.

More recently Mr Ghafar has proved himself as a Mahathir loyalist. Renowned for his political contacts with UMNO's traditional bedrock of support in rural areas, Mr Ghafar was

used by the prime minister to build up a new, Mahathir aligned, UMNO after a party split in 1987-88. Earlier this year Mr Ghafar was at the forefront of pushing through controversial constitutional reforms limiting the powers of the sultans, the Malay rulers.

Mr Anwar is a very different politician, said to represent the "Malay baru" - or the new breed of Malay. The finance minister, still only in his mid forties, has had a meteoric rise through the party ranks, propelled in no small way by Dr Mahathir.

He was once regarded as a firebrand and, as a former head of ABIM, the Islamic youth movement, a vocal government critic. For a time in the mid 1970s the present finance minister was detained under Malaysia's powerful internal security act.

His image has changed since those days. To visitors he is genial and relaxed, his conversation ranging from literature and music to the problems of third world debt.

But no one doubts the presence of an extremely astute and ambitious politician behind the finance minister's urbane exterior.

Mr Anwar is felt to reflect the opinions and aspirations of an increasingly powerful part of the Malay community - the urbanised, sophisticated

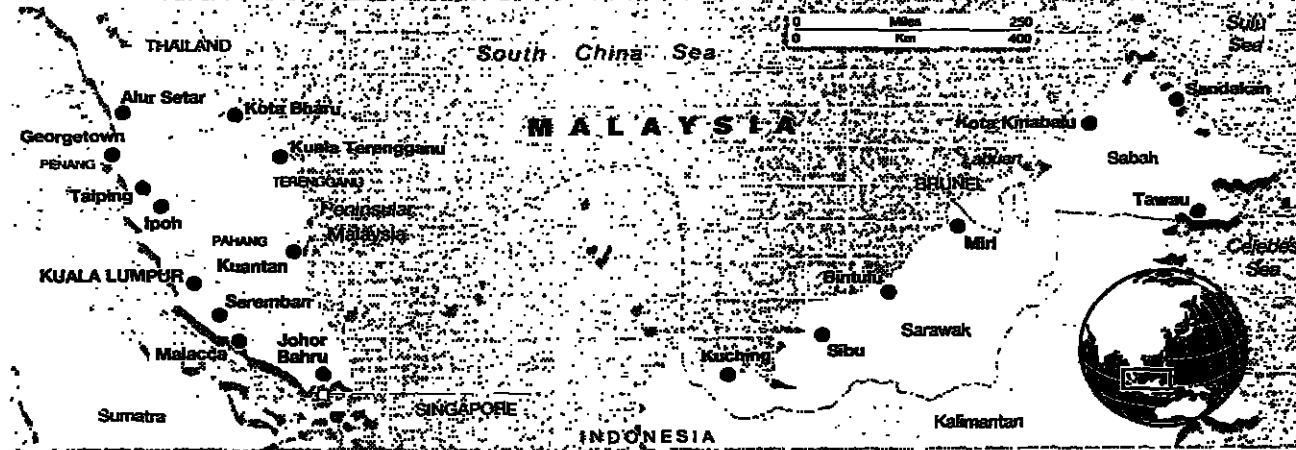
The two rival successors for the key number two post have powerful support in the Cabinet

Malays who, it is felt, will be at the forefront of the country's next economic leap forward.

Dr Mahathir has said he would prefer if Mr Ghafar's position as party number two were not challenged in the November elections. But for once it seems the prime minister's word is not being obeyed.

Mr Ghafar's and Mr Anwar's political stormtroopers are already out in the towns and countryside rounding up support.

Some have warned of a party schism. Mr Anwar has said he is a Mahathir loyalist - but feels he must obey party senti-



Dr Mahathir Mohamad: still running hard after 12 years in power

ment and stand for election. "There will be no disunity in UMNO," said Mr Anwar announcing his candidacy earlier this month.

Meanwhile Mr Ghafar seems determined to retain his post, and with it the possibility of becoming Malaysia's next prime minister. "I don't care if anyone says that I'm not prime ministerial stuff but please

don't think that I'm not qualified enough to handle UMNO's deputy presidential post or even the presidential post," says Mr Ghafar. "I have been in UMNO long enough. I know exactly what UMNO is all about. I will defend the post even if only two party divisions nominate me."

Each candidate has his powerful backers, with the older

hands in cabinet generally favouring Mr Ghafar, the younger, rising stars such as the state chief ministers, backing Mr Anwar.

At a rally in Kuala Lumpur about 8,000 turned up to voice support for Mr Ghafar. Less than friendly words are being exchanged between the two sides. There is open talk of "money politics" with funds being used to influence delegates' voting patterns. Mr Anwar, in particular, is charged with accumulating a vast monetary war chest to further his cause - a charge he vigorously denies.

But it is clear that the impact of these elections is being felt well outside UMNO

There are many Indians and Chinese but only the Muslim Malays will decide the premiership

rank. Politics and business have long been closely related in Malaysia. Though the UMNO leadership denies party involvement in business, the party is immensely rich. Brokers - and corporate leaders - talk openly of "UMNO connected companies". Stock market analysts look as much at who is in or out of political favour as they do at company balance sheets in assessing market performance.

Race remains a key factor in Malaysia's political life. To an outsider it might appear strange that UMNO - a party which is, as its name implies,

strictly Malay - is alone deciding who will run the country. The Chinese, Indians and other races, who together make up nearly 50 per cent of the population, are not involved in the process.

The Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), are UMNO's main partners in the Barisan Nasional. But neither party has much political clout.

"If you are a rich or ambitious Chinese or Indian, you don't get involved with MCA or MIC politics," says a local academic. "Instead, you quietly seek to align yourself with the main forces in UMNO - and give generously to UMNO party funds."

Opposition is limited to the Democratic Action Party (DAP), headed by veteran Chinese politician Mr Lim Kit Siang, and remnants of the old UMNO headed by Mr Razaleigh Hamzah, once a close colleague of Dr Mahathir, but now a fierce critic.

The Barisan Nasional has 127 of the 180 seats in the lower house of parliament and the opposition parties can do little but snipe at Dr Mahathir's government.

The DAP says there is an increasingly undemocratic trend in Malaysia, citing Dr Mahathir's enthusiasm for tinkering with the constitution as evidence that the basis of the country's democracy is being undermined. The DAP has also been forthright in attacking what it considers to be the increasingly cosy relations

KEY FACTS		
Area	332,965 km ²	
Population	18.6m (mid-1992)	
Head of State	King, Sultan Azlan Shah	
Head of Government	Prime Minister Mahathir bin Mohamad	
Currency	Ringgit (also known as Malaysian dollar)	
Average exchange rate	1992:2.55 per US\$; currently 2.5537	
ECONOMY		
	1992	1991
Total GDP (US\$bn)	55.02	n/a
Real GDP growth (%)	8.0	8.1
GDP per capita (\$)	2,960	n/a
Components of GDP (%)		
Private consumption	51.5	
Government consumption	34.4	
Gross fixed investment	13.5	
Exports	78.4	
Imports	77.3	
Consumer price inflation	4.7	3.2
Manufacturing wage inflation	9.0	10.0
Ind. production (% change pa)	8.7	8.1
Unemployment (% of lab force)	4.1	4.0
Reserves minus gold (\$bn)	19.4	18.9
Prime lending rate (% pa end period)	9.5	8.75
Narrow money growth (% pa)	9.5	n/a
Broad money growth (% pa)	19.1	n/a
FT-Adindex (% change over year)	35.8	40.63
Gen. gov. balance (% of GDP)	-2.5	-3.4
External public debt (% of GDP)	38.0	n/a
Current account balance (\$bn)	-1.7	-0.9
Exports (\$bn)	39.7	44.0
Imports (\$bn)	36.9	40.2
Trade balance (\$bn)	2.8	3.8
Main trading partners (1992)		
Singapore (% of total)	23.3	20.6
Japan	13.2	25.9
US	14.8	15.7
Germany	4.1	4.2
UK	4.0	3.4

Notes: (1) latest; (2) year to first quarter; (3) 1991 figures; (4) May; (5) Bank of America 1993 forecast; (6) January; (7) 1993 to date; (8) government target; (9) Barclays Bank 1993 forecast. Sources: IMF, Datastream, Economist Intelligence Unit, Barclays Bank, Bank of America

between senior government figures and leading business people.

The Barisan Nasional faces a more formidable opposition threat at state level - in the northern state of Kelantan, where the strongly Islamic Parti Islam Malaysia (PAS) holds power, and in Sabah in East Malaysia, which is controlled by the Parti Bersatu Sabah (PBS).

Dr Mahathir remains deeply suspicious of any opposition to his rule and has made considerable efforts to undermine both PAS and the PBS. But in deeply conservative Kelantan PAS remains strong. In Sabah, some senior politicians formerly aligned with UMNO have switched to join the PBS. While not a direct threat to the Barisan Nasional's rule, such developments are wor-

some for Dr Mahathir's government. Many analysts forecast an early general election being called in the first half of next year: UMNO would not only seek to renew Dr Mahathir's mandate but also to unite the party after what many feel will be a bruising and divisive internal election contest.

Dr Mahathir himself tries to play down the intensity of political feeling within UMNO. "It might look like a bubbling cauldron of political activity but I don't think it's all that bad," he said.

"We (in UMNO) are quite rational people. We have been quite rational all this while. We don't have that kind of very violent antagonism towards each other or total inability to work with each other," said Dr Mahathir. Not everyone would agree.

WATTS UP AT TENAGA NASIONAL BERHAD



Tan Sri Dato' Haji (Dr) Anis bin Arope, the energetic Executive Chairman of Malaysia's power corporation - Tenaga Nasional Berhad (TNB) whose financial performance rides high despite the repercussions of demand exceeding supply, confides with communications expert and former television newscaster Ghazalie Abdullah on the latest electrical energy situation.

He tells of his electrical strategy in shape of a plan to come. It also consists of reminding the public of doom of the virtues of TNB - increase their electricity consumption.

Q Dr Anis, how did the country's energy woes evolve?

A Many profound changes have transpired in Malaysia in the last five years than say in the past ten years. When the Malaysian government developed the Sixth Malaysia Plan (1991-95), they had mapped out a master blueprint for all to follow. What was supposed to have taken five years to achieve, has now been accomplished by Malaysians in half that time. Commendable that this may be for the nation when all other global economies are in recession or crumbling, there is also a price to pay for the fast-paced development when certain elements of the national infra structure is strained by this phenomenal growth.

This is particularly so in the case of TNB when one considers that our growth forecasts were paced in accordance to the projected 5 per cent laid down in the master blueprint. It would seem to appear that while certain growth sectors have been fortunate to move beyond the speed of light so to speak, we have not. Not because we did not track the trends, but rather such growth patterns are unrealistic, at least in the eyes of the national planners, and only come under an economic climate of abnormal conditions.

At TNB, to plan and build a reasonable-sized power plant takes some 5-10 years before it can be fully operational. Therefore, unlike say building a manufacturing plant, our lead times are different.

Q So where has demand exceeded supply?

A There has been a significant increase in our customer base with the link up of new mega and micro customers between September 1992 until June this year - 213,576 new customers had been connected. The existing industries are also expanding at a tremendous rate.

In addition, when one considers that Malaysia is now fast switching from a commodities base to an industrialised state, mercurial mighs of power would be needed by the new industries.

However, this does not mean that TNB has not seen the light of things. We are monitoring growth trends and the various government departments are liaising with us on electrical energy requirements by the new investors. We are also having regular dialogues with the various industrial associations such as the Federation of Malaysian Manufacturers (FMM), the American Business Council, Federation of Malaysian Consumers' Associations (FOMCA) and other similar bodies.

There are also advisory committees from TNB to ensure that the energy requirements are accommodated. Alternatives are also being suggested.

Q So tell me Dr Anis, is this energy crisis a transient?

A Yes. The power shortcomings the country is facing is a short term issue. The situation is tight but stable. The shortage is only during peak hours and during weekdays in the quantum of 3-5 percent of peak load.

By August to December this year, TNB would, through its plant-up programmes, add another 312 MW to the national grid from ten new gas turbines. It would certainly help alleviate the problem. In November 1993 and January 1994, two units of the Sungai Piah Hydro Electric Power Station (Lower Station) would also be commissioned, adding another 55 MW.

On the medium term, 845 MW of generating capacity will come on stream between December 1993 to June 1994 in Melaka and Serdang. In addition, there would be three units of gas turbines totalling to 330 MW that would be commissioned in Kapar, Selangor by July 1994.

By 1995, some of the Independent Power Producers (IPPs) would have their generating plants in operation. These would further lessen our energy shortage.

Q So what are your immediate plans?

A TNB plans to invest RM 17.8 billion (USD 6.84 billion) in a five-year plant up and upgrade programme from now until 1997 to alleviate current shortages and improve system reliability and efficiency. The plan also includes combined cycle conversion exercises at a number of TNB's present generation stations to improve its performance and output.

With the new generation plants and upgrade programmes, TNB's capacity would reach 9272 MW by 1997, an increase of 3423 MW. The capacity increase would not include those of the Independent Power Producers (IPPs) which is currently estimated at 3960 MW.

And before the turn of the century, while the maximum demand in Peninsular Malaysia is anticipated to be around 9800 MW, there would be at least 13,800 MW of generating capacity in store.

There are also plans to introduce 500 kV transmission lines in the near future. This upgrade is in line with the development of generation and would help enhance the National Grid. At present, TNB operates on 275 kV, 132 kV and 66 kV transmission lines.

Hydro electric power continues to be the lowest cost effective energy production means for TNB. The company is now emphasising its focus on hydro and gas, and reducing its dependence on oil.

With a pact signed with the Public Utilities Board of Singapore, an additional 100 MW of power to meet peak demands is also on the line. This would continue daily for six months.

With all these activities by TNB as well as the IPP's new plants, the country's energy woes are expected to be resolved in stages before the end of 1994.

Q Since privatisation, what would you consider to be Tenaga Nasional Berhad's brighter side of things?

A Well, despite the current load curtailment and load shedding exercises caused by scheduled maintenance works and unforeseen breakdowns, TNB's half-yearly results provide evidence of underlying strength. The main grounds for our optimism include the commendable performance for the first six months where growths in turnover and profits were registered.

Turnover rose by 16.3 per cent from the previous corresponding period and this was largely attributed to the increase in electricity unit sales and an increase in the average selling price by 5.3 per cent to 18.68 sen as a result of the continuing recovery of discounts.

Profit before tax saw a significant increase of 15.3 per cent at group level to RM 911 million. This has reinforced the company's confidence in meeting capital expenditure, loan repayments and other internal funding requirements.

We expect to post commendable results given that electricity consumption is higher in the last six months of our financial year, as there are more productive days and lesser public holidays as opposed to the first six months.

Electricity consumption patterns are also booming at 12.5 per cent. This pattern is unprecedented in Malaysian history and is one of the highest gross rates in the world.

Productivity in the company has also increased, culminated by a combination of growth in business and the continuing reduction of staff by attrition. The units generated per employee for the first half

year as of February 28, 1993 was 627,320 compared with 540,750 for the corresponding half year in 1992, an increase of 16 per cent.

Other contributory elements are the reduced expenditures at corporate headquarters, the even more stringent measures introduced in awarding tenders and the continuing shift in generation mix towards gas.

Historically since privatisation, our financial performance has been remarkable with upward directions. In the Financial Year 1992, we made a group pre-tax profit of RM 1,414.7 an increase of 101.5 per cent over 1991. Demand for electricity will definitely continue to outpace GDP.

Q In terms of added value, what can customers of Tenaga Nasional Berhad expect?

A TNB has embarked onto a new phase in customer service with the introduction of a new Customer Information and Billing System (CIBS). The system currently being implemented in the Klang Valley is one of the measures to fulfil our objective to further increase productivity and to reduce errors. It is targeted that by 1996, the entire Peninsular Malaysia will enjoy the benefits that this system affords.

We will continue to fulfil our obligations as chartered in our Corporate Mission, that is, to provide an essential part of the national economic infrastructure by continuously meeting customers' requirements for energy safely, reliably and economically; encouraging the growth of efficient enterprises to service the needs of the energy supply industry whilst meeting the needs of all its shareholders.

Q And in terms of corporate philanthropy, what has the company done?

A The RM40 million Tenaga Nasional Foundation was officially launched by the Minister of Finance, Dato' Seri Anwar Ibrahim in June and is one of the community relations tasks set by TNB to assist the government in making Vision 2020 a reality in terms of a skilled workforce for the future. The foundation seeks to provide scholarships for the needy and to reduce the burden of the poor. It also aims to cultivate and enhance the standard of education in the country. In addition, the funds would also be used to raise intellectual levels, quality of physical education and the welfare of the needy students.

To overcome the shortage of skilled and professional manpower in the country, TNB has seconded a few of its professional staff to various institutions such as the Economic Planning Unit (EPU) in the Prime Minister's Department, Ministry of Energy, Telecommunications and Posts, and the Sabah Electricity Board.

Earlier in April this year, TNB in association with the University of Malaya, had launched the Young Managers Development Programme to develop executive business management skills.

Q So, it would seem that TNB is heading in the right direction.

A Certainly. Things are expected to be bright. TNB is undertaking various restructuring exercises with the creation of more autonomous Strategic Business Units with a view to achieving improved efficiency, productivity and being more proactive in responding to the needs and requirements of customers. The objective here is to create more autonomy and accountability which would motivate employees to greater heights of excellence.

We will continue to be mindful of our corporate mission and to remind our sceptics, that we are here to take the challenges of today, tomorrow and the future.

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IN most countries, a yearly 8 per cent economic growth figure would throw finance ministers and central bankers into paroxysms of joy. Not so in Malaysia.

Last year Malaysia's overall GDP growth was indeed 8 per cent, but the figure was described merely as "credible" by Bank Negara, the country's central bank.

Malaysia has been used to flying in the clear skies of economic success, with soaring GDP growth rates of 9 per cent in 1988, 8.7 in 1989, nearly 10 per cent in 1990 and 8.5 per cent in 1991.

The buzz word now is consolidation. The economy, say the official planners, is taking a breather. A combination of continuing tight counter-inflationary policies at home and a less than buoyant market abroad means that GDP growth will further moderate to between 7.5-7.8 per cent this year.

"The prospects for a slow and moderate recovery in the major industrial countries could well be a blessing in disguise," says Bank Negara. "It would provide some much needed respite for the Malaysian economy to consolidate its position - to alleviate outstanding infrastructural and supply impediments and pave the way for sustainable growth with stability over the medium term."

But overcoming those impediments, which include serious labour shortages, infrastructure bottlenecks, a drop in investments growth and weak markets for various export sectors, will not be easy. Malaysia has been climbing fast. Last year per capita income increased a further 11 per cent to M\$7,541 (\$2,950).

Malaysia's long term plan is to be a fully industrialised country by the year 2020. The government has set an average annual growth target for the next 27 years of 7 per cent. Achieving these targets is likely to become progressively tougher.

The fundamentals of the economy are still sound. The main achievement of 1992 was on the balance of payments front. At the end of 1991 the finance ministry had

After record growth rates, the economy has reached a plateau of success, says Kieran Cooke

Consolidation is the new priority



Electronic component making: exports are essential to Malaysia's economic survival

predicted a 1992 merchandise trade deficit of M\$3.7bn. In the event the merchandise account recorded a surplus of M\$7.3bn last year, compared with a deficit of M\$461m in 1991.

A sharp fall in imports rather than export growth was the main reason for the merchandise account improvement. The value of imports tripled in the years 1987 to 1991. In 1992 the value of imports increased by only 0.4 per cent.

The deficit in the services account, mainly due to freight and insurance payments, narrowed slightly to M\$12bn last year, giving an overall current account deficit of M\$4.4bn, representing 3.1 per cent of GNP, compared with a deficit of M\$12.5bn or 10.1 per cent of GNP in 1991.

Officials are now predicting a small current account surplus of M\$350m for this year, the first since 1988.

The international reserves position also improved. Reserves stood at M\$47.2bn at the end of 1992, up from M\$31bn the previous year and topping the country's external debt of M\$41.4bn.

In recent months the overriding concern of economic policy - and the factor which has been chiefly responsible for the moderation in growth rates - has been the fight against inflation. Traditionally Malaysia has had low inflation: when inflation was rising above 5 per cent at one stage last year the alarm bells started to ring.

High interest rates were maintained through 1992. This lessened demand for domestic credit but caused a large inflow of funds from abroad. As a result Bank Negara was forced to mop up more than M\$15bn of excess liquidity from the domestic banking system.

Restrictions were imposed on hire purchase and credit card use. Government spending in a number of areas was cut back. Investment projects in the private sector were curtailed. As a result there was a sharp drop in the growth of private sector spending - from 16.5 per cent in 1991 to 2.3 per cent in 1992. (Car sales in 1992 dropped by 15 per cent - compared with a growth in sales of 14 per cent the previous year.)

The battle against inflation continues: Bank Negara says the overall inflation rate last year was 4.7 per cent compared with 4.4 per cent in 1991. "The real issue

for us is to build a strong foundation for our economy to make a leap towards the next phase of industrialisation," says Mr Anwar Ibrahim, the minister of finance. "Unless we are firm in our resolve to break the back of inflation, that foundation will be shaky and our future progress will be jeopardised." There seems little room to dampen down domestic demand further without damaging overall growth prospects. Officials see little likelihood of bringing price rises down to under 4 per cent by the end of the year.

Malaysia is vitally dependent on trade: two way merchandise trade is equal to

nearly 60 per cent of GDP. For the first time in several years export earnings in 1992 failed to achieve double digit growth rates. Exports earnings for the year were M\$102.8bn, an increase of 8.8 per cent compared with growth of 18.6 per cent in 1991.

The moderation in export growth was mainly due to the continuing problems - Japan, the US and the EC. Malaysia's commodity export earnings also declined due to generally low world prices. Exporters were hit further by the appreciation of the ringgit, the Malaysian dollar, against the major currencies.

Official predictions of a better export performance this year seem to be right: in the first four months of the year exports were up 24 per cent as against 8 per cent in the previous corresponding period. Meanwhile imports rose by 9 per cent.

One of the main reasons for Malaysia's economic growth over the last five years has been due to its success in attracting millions of dollars worth of investments - both from overseas, and more recently, from internal sources.

According to government figures total investment approvals rose from M\$3.9bn in 1987 to M\$9bn in 1992, to M\$12.2 in 1989 and M\$28bn in 1990. In 1991 investments peaked at M\$30.8bn. Last year they dropped to M\$27.7bn. Of that figure M\$17.7bn was foreign sourced - an increase of 2 per cent over the foreign content in the 1991 figure - while M\$10bn was domestic - representing a fall of more than 30 per cent from the previous year.

Mrs Rafidah Aziz, Malaysia's minister of trade and industry, says Malaysia has already achieved more than 70 per cent of

its investment target under the present five year plan (1991-95). But there is no doubting the official concern about the investment downturn.

Other countries in the region, in particular China and Vietnam, are attracting investments away from Malaysia. In 1991 Taiwan was one of Malaysia's biggest investors, with investments of M\$3.6bn. Last year Taiwan invested less than half that amount.

Foreign investment approvals in the first six months of 1992 were M\$7.5bn. This year the figure for the equivalent period was M\$1.6bn. Over the same period last year approved domestic investments were M\$4.1bn. This year the figure was M\$2.7bn.

"It is important for the government to come on more aggressively to promote domestic private investment in the absence of a strong inflow of direct foreign investment," says the mainly privately funded Malaysian Institute of Economic Research. In a budget later this year the government might lower corporate tax from its present 34 per cent as an added incentive to investors.

A key problem with attracting investments is Malaysia's contracting labour supply. The official unemployment rate is 4 per cent but in many parts of the country it is zero. Industrialists have become frustrated with a high rate of job hopping and upward pressures on wages.

In some areas 70 per cent of workers on rubber and palm oil estates are foreigners - mainly from Indonesia or Bangladesh. The government is nervous about the implications of the presence of a large immigrant population - estimated at up to one million - and the possible upsetting of the country's delicate racial balance.

No one is suggesting that Malaysia's economy is about to take a dive. But there are many who forecast economic turbulence ahead as the country runs into constraints on investments and labour - and braces itself for a more competitive regional environment.

PAHANG AND TERENGGANU

On the road to development

THE mountain range that runs from north to south in peninsular Malaysia serves more effectively than any border in carving out separate nations of the east and west, writes JENNY LUESBY.

Peninsular Malaysia's largest state of Pahang is only 40km from Kuala Lumpur at its western border, but in terms of development the distance is far greater.

Where much of the west coast is heavily industrialised, the east remains an agricultural economy where timber and rubber are supporting the first tentative moves into resource-based industry.

The development of oilfields off the east coast at Kemaman, in the coastal state of Terengganu, has given the region a leg-up, and its natural beauty has brought in the tourists, but its growth remains in its infancy.

The official line is candid: "Ten years ago, Terengganu had virtually nothing to offer," says Mamat Ghazalee bin abd Rahman, chairman of the state committee for petroleum,

The area is a haven of order next to the world's fastest growing markets

industry and human resources. But, things have changed, he says, with the arrival of oil and gas.

And they have. The state has built a port, upgraded its roads, expanded power and water supplies, improved communications and set up the obligatory crop of industrial estates.

The oil revenue has also brought ornamental government buildings, heavy with marble. Mining and quarrying, which includes the oil industry, accounted for 63.8 per cent of Terengganu's Gross Domestic Product in 1990.

Manufacturing remains thin on the ground. So too does employment. "We have had many inquiries," says Haji Mohd Zaki bin Haji Yusoff, director of the Terengganu development corporation, "but people generally locate elsewhere."

In neighbouring Pahang, more than 40 per cent of investments up until December 1991 fell within the public sector, highlighting further the investors' shyness.

The less educated population on the eastern side of the peninsula and the limits on its infrastructure may have deterred some, but the states of Pahang and Terengganu probably have a point when they suggest that people do not come because they do not know what is there.

Both Pahang and Terengganu have abundant supplies of power. They also have products such as polyethylene, for producing plastics, which have come with the petrochemicals industry. The states seem to have the potential for developing a sound industrial base.

"We see Vietnam and China as competitors really," says Haji Mohd Zaki. But facing them across the South China Sea, the region may find its location an added advantage. Serviced to western stan-

dards in every area from legal and accounting services through to cargo facilities, the east coast offers a haven of order next door to what could be the world's fastest growing markets in years to come.

The east coast's facilities include two new ports, a deep-water natural harbour at Kemaman, capable of taking vessels up to 120,000 dwt, and a small and efficient operation at Pahang's state capital, Kuantan. These could be used as transshipment centres.

And while the official downgrading of Kuantan airport from international status has brought irritation in Pahang, and a degree of inconvenience as air cargo heads to Kuala Lumpur, the decision could be reversed if air traffic picks up. In the meantime local ambitions are subdued. There is the occasional mention of electronics and high-technology, but conviction is absent. The area's real thrust for development is through industry rooted in the region's ample resources.

Agriculture is expected to account for nearly 40 per cent of GDP in Pahang in 1993, and more than 40 per cent of employment. Oil palm, rubber and timber made up its bulk, with oil palm alone accounting for an estimated 20 per cent of the state's GDP.

Both Pahang and Terengganu also offer an enviable range of minerals, which as well as tin, include mercury, silica, tungsten and graphite.

"We do not want loggers, we want chipboard, and even furniture manufacturers," says a local official. Unlike the west coast, the region is also interested in heavy and labour-intensive industry.

But, for now, the region's manufacturing is small - in 1992, manufacturing accounted for 14 per cent of GDP in Pahang. In the somewhat informal shy state of Terengganu the most recent figures available are for 1990, when manufacturing accounted for just 8.2 per cent of GDP.

Tourism has been the states' true testing ground. Tourist arrivals in Pahang rose by 77 per cent between 1986 and 1991 to reach 1,712,847. The length of stay also increased, and hotel occupancy rates improved from an average 50 per cent to 80 per cent.

In this context, the states, both predominately Moslem, are at pains to emphasise their religious tolerance. The balance is a delicate one, especially with the recent switch to a more fundamentalist government - opposed to the federal authorities - in the state of Kelantan, north of Terengganu. But the fact that nearly half of Pahang's tourist spending is in the rural Genting highlands, notable for the fact that it houses the one and only gaming casino in Malaysia, would tend to bear out the assertion that tolerance is high: gambling is contrary to Islamic teachings.

The rural casino is not the region's most offbeat venture. There is also an eel farm set up by a Taiwanese investor, which boasts of being the largest in the world. Odder still is the imminent arrival of the kit from the recently closed Ravenscraig steel plant from Scotland.

Malaysia Overgreen

MANAGING FOR PERPETUITY

Malaysia is proud of its rich heritage of forest. Malaysia's forest management, which began in 1901, is second to none among tropical countries and has succeeded in maintaining a high percentage of Malaysia's land under forest, much more than even most developed countries.

Malaysia values its forest, not only for the benefits derived from commercial logging, downstream processing and extraction of non-timber products, but equally for its ecological and environmental protective role. Aware that sound forest management is vital, Malaysia has striven to strengthen sustainable forest management, policy-wise and implementation-wise.

Malaysia is well on the way to fulfilling the objective of sustainable forest management on the basis of ITTO (International Tropical Timber Organisation) guidelines through:

- ▶ strong commitment by the Malaysian Government, Federal and State, to manage the forest for present as well as future generations;
- ▶ progressive improvement of forest services and strengthening R & D, through the Forest Research Institute of Malaysia (FRIM) which is acknowledged as the world's leading research organisation on tropical forest;

successful diversification of the Malaysian economy, with less necessity to convert forest land to agriculture in the future;

▶ progress in poverty eradication, including the provision of social and economic opportunities for forest dwellers, which effectively reduces shifting cultivation practices on forest areas;

▶ promotion of eco-tourism where tourists can enjoy Malaysia's extensive natural forest, national parks, wildlife sanctuaries and nature reserves.

Forest Is Forever And Malaysia Forever Green.
Wälder zu allen Zeiten Ein immergrüner malaysischer Wald.
La forêt demeure et la Malaisie est verte à jamais.
Bossen blijven voor alle tijden, Maleisië blijft voor altijd groen.

とわ みどり
森は永遠、マレーシアは常緑

THE MALAYSIAN TIMBER INDUSTRY DEVELOPMENT COUNCIL

For more information please contact:
The Malaysian Timber Industry Development Council,
95, 9th Floor Bangunan Arah Malaysia, 55, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia. Tel: 03-2323999 Fax: 03-2386796

MALAYSIA IV

Jenny Luesby weighs the role of the car industry

Vehicle of growth

MALAYSIA has a dream, called Vision 2020. The idea is to achieve the economic status of an industrialised nation by the year 2020.

Its car industry is one of the ways that it sees of getting there.

Perusahaan Otomobil Nasional, or Proton, produced its first car in 1985. The country's "First National Car Project" was seen as the means of expanding the nation's engineering skills and manufacturing capabilities.

In conjunction with Mitsubishi of Japan, the government set up the plant and Proton began to motor.

By 1992, the company accounted for more than 67 per cent of the domestic car market, was exporting to 17 countries, and had established a sizeable sales network in the UK. Delighted at this progress, the Malaysian government announced Proton's partial privatisation and a second car project.

From the beginning, the government's intention has been to use its car industry as a way to develop an engineering sector. By supplying its own industry, it hoped to iron out any start-up problems, so that it could move on to the world stage as a fully geared up supplier of cars and subsequently of components.

Local content was the name of the game, and Proton was playing well. British consultant engineers were imported, to the disappointment of the manufacturer's Japanese partners, and Hicom, the government controlled heavy industrial holding company, began manufacturing car parts.

Fuel tanks followed radiators and exhaust systems on to the local content list.

Success is measured only partially in the 102,800 units that Proton produced in the year to March 31 1993. More significant for the government were the 300 car component companies that emerged, including more than 70 which were producing for the original equipment market.

A ban on external sourcing of more than 30 components had helped to take the local content of motorcycles

assembled in Malaysia to more than 75 per cent. Proton to over 60 per cent and other passenger and commercial vehicles to more than 30 per cent by the beginning of this year.

By 1993, the country could boast 13 vehicle assemblers, including Proton, with a total installed capacity of 306,000 units of motorcycles per year, and 202,000 units of passenger and commercial vehicles, none of which was 100 per cent externally sourced.

As for the second national car project, the government claims that it will not eat into Proton's sales but will offer a variant of a Japanese 660cc model aimed at the market below the Proton's price range. In collaboration with Daihatsu of Japan, it aims at a 1994 start-up to produce 20,000 cars a year.

The government has taken steps to ensure that any market contraction will be felt first by imported vehicles. Hire purchase limits, introduced in 1991 to moderate domestic demand, were amended in April 1992 to exempt cars costing less than M\$40,000, which Protons do.

The rules were subsequently lifted altogether, but the slowdown they prompted cut the sales of the dearer imported cars. Sales of non-Protons fell by 25 per cent between 1991 and 1992.

Import tariffs have also been used to sharpen the price differential between locally assembled cars, parts for which are charged at between 13 and 40 per cent, and completely built car imports, charged at 140 to 300 per cent, and are anyway limited to 10 per cent of the market.

But Proton has been ailing in its own right of late. Sales in the financial year to the end of March 1993 were down nearly 2 per cent on the previous year.

The setting for the decline was a slowdown in Malaysia's motor industry as a whole, after marked growth from 1988 to 1991. In terms of sales, commercial vehicles fell by nearly 57 per cent to 35,054 in 1992, compared with 81,099 in 1991, while passenger vehicles fell 13.5 per cent to 117,773.

The decline at home made Proton all the more determined

to export. By the end of April 1993, it had exported 66,183 cars, of which 56,821 were to the UK, where it has gained from the demand for cheaper cars in recessionary times. There is even talk of an overseas plant, in Indonesia, or maybe in Chile.

The outlook for Proton certainly rests on its success as an exporter. Malaysia's own demand could not support one car manufacturer, let alone two. It is also exposed to foreign exchange risk because of its yen-based costs, which one industry analyst suggests were as high as 45 to 50 per cent in 1992.

It can offer cheaper labour costs than many of its competitors, but lacks economies of scale.

At the end of the day, Proton is an anomaly. It exists to feed a nation's greater need, and it is likely to receive all the protection it needs to survive, until its survival is no longer tied up with Malaysia's Vision.

THE Kuala Lumpur stock exchange has been breaking records this year. The composite index has reached successive peaks and the number of shares traded has sometimes exceeded levels in New York and Tokyo.

Following a round of privatisations which brought companies such as Telekom (the telecommunications network) and Tenaga (the electricity utility) on to the market, the KLSSE's market capitalisation of more than \$100bn is now comfortably ahead of regional rivals Bangkok and Singapore.

The increased volumes and the rise in the index, however, have not always moved in step.

The first half of the year was characterised by frenzied activity from local speculators, largely in secondary stocks. Volumes soared - on April 15 more than 1bn shares worth about \$1bn changed hands - but the index, dominated only slightly.

Trading patterns were typical for a developing market in a booming economy; as in Bangkok a few months earlier, investors piled into a maelstrom of speculation and share-ramping by syndicates. Some



Mohamad Nadzmi: 'If things go wrong, my career is over. There's no turning back.'

Profile: Mohamad Nadzmi, head of the Proton company

Youth in the driving seat

MR Mohamad Nadzmi Mohamad Salleh has one of the most difficult jobs in Malaysia. At only 39, he is head of Proton, Malaysia's national car company. Proton is the pride of Malaysia and the project most dear to Dr Mahathir Mohamad, the prime minister.

"It's tough now and it's going to get a lot tougher," says Mr Nadzmi, who has been in his post since mid July. "Proton is the cornerstone of the country's industrialisation programme. It's daunting to take such a job on. If things go wrong then that's the end of my career. There's no turning back. We have to succeed."

Mr Nadzmi describes himself as a professional manager rather than a technician or engineer. He studied economics, chemistry and mathematics in the US, then returned to Malaysia to work for Petronas, the state oil company, and HICOM, the government controlled heavy industrial holding company.

Mitsubishi, Proton's Japanese partner, has had its men at the head of the national car project for most of time since the first car rolled off the assembly line in the mid 1980s.

But there has been talk of friction between the partners, with the Malaysian side dissatisfied about the slow rate of Japanese technology transfer, while Mitsubishi apparently disapproved of Proton's ambitious export plans - fearing competition overseas from the Malaysian car.

Mr Nadzmi was catapulted into the managing director's seat on the insistence of Dr Mahathir. "It was always realised that the Japanese could not go on running the company indefinitely. It was felt that now was the time for Malaysians themselves to take control," says Mr Nadzmi.

A Malaysian did head Proton for a time five years ago. But the Japanese reassured control as various problems threatened the project's future.

In Malaysia, questions of politics and race are part of almost every activity. Mr Nadzmi has to have the right political allies if his authority is to be maintained. Part of Mr Nadzmi's brief is to encourage more bumiputra or Malay participation in the industry. He has to do this while not offending other groups.

"I know people will be watching to see if I perform well. I think I have

about five years to really prove myself. Proton has achieved so much but the next phase will be harder. We've got to find new markets so we can expand production and bring costs down. We've got to introduce more competition in our supply network. That means I'm going to make enemies and offend some politically well connected people. But it's got to be done."

Mr Nadzmi has already proved himself as a businessman. Before his present job he built up Edearan Otomobil Nasional (EON), Proton's distributing company, into one of Malaysia's most successful conglomerates, with a listing on the Kuala Lumpur stock exchange.

"I'm not going to disregard what the Japanese have done at Proton. We can't reinvent the wheel. The Japanese have introduced their proven production methods. But as a Malaysian I think I know how to motivate people better," Mr Nadzmi feels Malaysians have a great flair for design. They are also good innovators. But making sure people stick to modern industrial working practices is not easy.

Kieran Cooke

Temperatures run high at the Kuala Lumpur stock exchange

From peak to shining peak

brokers slept in their offices at night as they struggled to keep up with the paperwork, and chartered helicopters to shift scrip around the country.

"Before they would buy 10 lots [of 1,000 shares], now it's 100 lots," said one stockbroker. "The clients' money held off-shore by ethnic Chinese businessmen flooded back into the country as confidence in the ringgit, the Malaysian dollar, strengthened. A lack of rights issues as a result of a reorganisation of the market's regulatory system has left investors with plenty of cash, although that is likely to change in the remaining months of this year."

Each political rumour, each hint of a tenuous business deal in China produced a flurry of activity in the stock concerned, a trend encouraged by a series of tentative agreements signed by Malaysian businessmen during a visit to China in June by Dr Mahathir Mohamad, the prime minister.

It was the smaller stocks that were attracting the most attention. The price of a small property company called Granite, with a handful of employees and an unimpressive track record, increased more than tenfold on the back of an agreement to install thousands of gambling machines in north-east China.

Other China gaming plays soared as well. Timber stocks rose as the price of logs on the international market climbed

plan to list the state Heavy Industries Corporation of Malaysia (Hicom), probably by means of a reverse takeover involving New Serendah, a small listed rubber company whose share price has jumped in anticipation of an allocation of 30 per cent of the shares to Bumiputras (Malays) at a substantial discount is likely to give the Malay community a pre-election windfall.

Perhaps inevitably, the bull market has been marked by an

Political manoeuvring before November's contest for the deputy leadership of the ruling Umno party has given a further boost to stock exchange activity

sharply. Companies with strong government connections, such as Renong, were bought heavily, with speculators assuming they would benefit from contracts for large infrastructure projects; sometimes several competitors for the same deal were ramped one after the other, brokers said.

Political manoeuvring ahead of elections in November for posts in the United Malays National Organisation (Umno), the dominant party in the government) has added further zest to the stock market. Attention is focused on an expected tussle between Mr Abdul Ghafar Baba, the incumbent party deputy president and deputy prime minister, and his underdog challenger Mr Anwar Ibrahim, the finance minister.

Speculators buy stocks in companies linked to politicians they believe will do well in the election. Conversely, they also buy companies connected to the losers, assuming that the losers will be persuaded to withdraw in return for financial favours from the eventual winners.

Stockbrokers believe that the finance ministry will, before the election, rush through a

element of greed. Traditional blue chip stocks such as the Sime Darby conglomerate are considered too dull for speculators interested only in quick profits.

"When you tell a client the upside of a share is 20 to 30 per cent, they say they're not interested - they want 100 per cent," said a local stockbroker. The dangers of such a feverish market were demonstrated recently by a fiasco involving Union Paper, a small toilet paper manufacturer thought to be a target of a reverse takeover bid by a property and financial cooperative dominated by Umno members. The shares soared to more than 10 times their original value and then plunged, leaving some speculators in default, apparently because of illegal short-selling.

The new Securities Commission, established earlier this year, has investigated the affair and is expected to make an announcement soon. Union Paper's shares were suspended. It was a salutary lesson for small investors, who subsequently lost some of their enthusiasm for second board stocks and took more interest

in blue chips. Both the KLSSE and the Commission are attempting to tighten regulation of the market to curb share manipulation and put a stop to misleading company announcements, although foreign and local brokers have yet to be convinced that the regulators have teeth.

"People start to feel that there is one place where they can make quick and big money," acknowledged Mr Nik Mohamed Din, KLSSE executive chairman.

"When the market becomes bullish there are bound to be some problems that come up. We are very concerned and very vigilant to avoid situations where people benefit through manipulation," he said. "If we do not check this kind of activity then the market will not be sustained. One of these days it will just burst."

While the KLSSE is demanding more frequent and accurate announcements from companies - about, say, their deals in China - the Commission is tasked with investigating other misdemeanours and with streamlining the hitherto bureaucratic procedures for new listings.

Other developments include the proposed establishment of the Kuala Lumpur Options and Financial Futures Exchange (Kloffe) by a politically well-connected private sector consortium (in the face of initial opposition from the Kuala Lumpur Commodities Exchange and the KLSSE), and the slow implementation by the KLSSE of its central depository system for immobilising scrip and reducing paper transactions. 11 shares from the second board have been included so far and the KLSSE wants to bring in the other 60 or so second board companies by the end of 1993, and to complete the entire process within five

years. Merrill Lynch, meanwhile, has issued call and put warrants on the composite index.

Although some foreign brokers are unsure whether Kuala Lumpur needs complex derivatives markets at this stage in its development, they are confident in the underlying strength of the KLSSE, which now has nearly 400 companies quoted on its main and second boards.

Brokers in the Malaysian capital also believe that the threat to their turnover posed by the over-the-counter CLOB market in Singapore - which Mr Nik Mohamed describes as a "black market" - is gradually diminishing, especially as CLOB does not deal in newer arrivals on the KLSSE such as Tenaga or Telekom.

The KLSSE itself says there are 89 foreign funds with investments in the Kuala Lumpur exchange, and foreign interest has increased since the middle of the year, pushing up the index - if not the volume - after the local speculators eased off.

"In the first half of the year, it was retail-driven, but in the past month or two it's swung around the other way towards institutional buying," said Mr Eugene Marais of Barings Research (Malaysia). "Foreign interest has surged."

Even if much of the trading by Malaysian investors on the exchange is purely speculative, the economy remains robust and continues to grow at eight per cent or more a year. Average earnings per share are forecast to rise 13.5 per cent this year and 15 per cent in 1994.

By mid-August, however, Kuala Lumpur shares were starting to look pricey to investors interested in fundamentals, especially when compared with rival stocks in Asia's other fast-growing economies. The KLSSE's prospective price/earnings ratio for 1993 was more than 22, and even for 1994 it stood at 20. "It's quite expensive," said one broker.

Victor Mallet

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FASCINATING MALAYSIA

TODAY the sign at the gate of the "Financial Park" on Labuan island leads only to a muddy building site, a cluster of pile drivers, but by the end of 1995 the island's small town should be overshadowed by at least M\$400m worth of office, condominium and commercial buildings.

The creation of the Financial Park - by a consortium of the Malaysian central bank and commercial banks - underlines the determination of the federal authorities to make Labuan a thriving international offshore financial centre (IOFC) in the face of widespread scepticism among bankers in south-east Asia.

Labuan's shortcomings are well known: office space is in short supply on this 92 square kilometre island off the coast of Borneo and clerical staff are hard to find. Only small aircraft such as the Boeing 737 can land at the airport, and the government has deferred plans to lengthen the runway.

Since declaring Labuan an IOFC in 1990, however, the Malaysian government has devoted much time and millions of ringgit to ensure that Labuan succeeds.

"We the authorities are quite worried that it's moving too fast," says Mr Mohamad Khir Abd Rahman, manager of the bank regulation department at Bank Negara, the central bank. "New offshore banks are fighting for new office space."

That problem should be solved when the Financial Park is finished - the developers say a third of the office space has already been informally booked - and in the meantime banks are allowed to manage their offshore units from Kuala Lumpur, although

LABUAN ISLAND

Asian centre for offshore finance

they must also maintain an office on the island.

So far 13 banks have been licensed to establish offshore units in Labuan, making Standard Chartered, Hongkong Bank, two Japanese banks and the main Malaysian banks, Bank Negara officials say total loans and deposits have each reached about \$1bn - tiny by comparison with Hong Kong or Singapore but growing fast. There are also

prime minister and driving force behind the development of Labuan as an IOFC, also looks at the project as a way of stimulating Malaysia's financial sector.

The Malaysian government urges most state companies to raise foreign loans through Labuan. Bank Negara officials say Labuan is centrally located among the countries of Asean, the Association of South East Asian Nations.

Officials hope that Labuan island will benefit from the flight of capital from Hong Kong in the run-up to the British colony's transfer to China in 1997

three insurance companies and 139 other companies licensed to operate offshore in Labuan. The Labuan economy, previously reliant on regional entrepôt trade based on its free port status, services to the oil and shipping industries, has profited from the government-inspired building boom.

Officials of the opposition state government in Sabah argue that the federal authorities are pouring money into Labuan to persuade voters that cooperation with Kuala Lumpur is better than confrontation: Labuan was part of Sabah but became federal territory in 1984. "Perhaps the idea is to show it's a success if you cooperate with the feds," says one banker.

Dr Mahathir Mohamad, the

They are hoping the island will benefit from capital flight from Hong Kong in the lead up to China rule in 1997.

Labuan compares favourably with its regional rivals on tax concessions. There is no withholding tax on bank interest, and offshore companies are given the choice of a three per cent tax on net profits, or a flat rate of M\$20,000. Secretary for offshore companies is assured.

But international bankers are still sceptical about Labuan. In Singapore or Bangkok, they say, customers can conduct their regular as well as their offshore business. Bermuda and Jersey are millionaires' playgrounds as well as offshore centres. (Mr Khir has an answer to that: "Labuan

might just turn out to be that way - a Monte Carlo for instance").

But Labuan is difficult to reach and has few facilities, the bankers say. Why, they ask, does an "offshore" tax haven need to be physically offshore at all?

Although Malaysian officials put a brave face on it, they were taken aback by the almost casual way in which the Thais established their own offshore business earlier this year - called the Bangkok International Banking Facility - and quickly attracted applications from more than 50 local and foreign banks. Thailand granted licences to 47.

Even the few foreign banks already establishing their offshore units in Labuan - with a handful of staff - are believed to be doing so as a kind of political insurance.

Those with domestic networks in Malaysia want to protect their interests by pleasing the authorities; those without operations in the restricted Malaysian banking market hope that supporting Labuan might help them in the future. "People are assuming that this is a good way to score points," says one economist in Kuala Lumpur.

Although this attitude is widely acknowledged, bankers say it does not necessarily mean that Labuan will fall as men's financial "pump-priming" and its real or imagined efforts at persuasion could easily give the island's offshore industry the critical mass it needs to succeed.

"It's almost at the stage when they can't afford for it not to work," says one banker.

Victor Mallet

MALAYSIA II

FINANCIAL TIMES TUESDAY AUGUST 31 1993

MALAYSIA V

■ INFRASTRUCTURE UNDER STRAIN

Rapid development takes its toll

THE INHABITANTS of Kuala Lumpur have a habit of shaking their heads sympathetically when they meet a visitor from Thailand. Are not the traffic jams in Bangkok appalling, they ask, and is not Thailand's infrastructure wholly inadequate?

Yet Malaysians too are starting to pay a high price for economic success after six years of rapid growth. Utilities are struggling to keep pace with demand. It can be difficult to place a local telephone call. Power cuts have become more frequent because of a shortage of generating capacity (something which has yet to hit Thailand).

The streets of the Malaysian capital are increasingly congested and polluted, to the extent that the government has launched a car-pooling scheme with the slogan "Get our city moving again". It is true that the roads of Kuala Lumpur are less crowded than those of Bangkok, but then Bangkok's population of some 8m is four times as large as Kuala Lumpur's.

Both cities have promoted the cult of the motor car, failed to provide adequate public transport, and are struggling now to build light commuter railways. Both cities need new international airports, and each is about to construct one.

As in Thailand, Malaysia's drive to remedy its infrastructural shortcomings presents mouthwatering opportunities to local contractors and foreign companies with the right skills: Malaysian officials cheerfully discuss projects

worth billions of dollars as they seek to bring everything from telephone networks to sewage treatment plants up to standards adequate to keep pace with continued economic growth.

Some economists are even concerned that the government's eagerness to upgrade Malaysia's infrastructure and maintain high growth rates may itself put further strains on the economy.

Building new roads, for example, deprives businesses of much needed workers when unemployment is effectively zero across much of the country. "People look at growth rates here like they look at

the 1980s and started to privatise transport and utilities with an enthusiasm rarely matched elsewhere.

Portions of the electricity and telephone networks have been sold to the public and the companies - Tenaga Nasional and Telekom Malaysia respectively - have been listed on the Kuala Lumpur stock exchange.

Faced with serious power shortages, the government has also strangled Tenaga into agreeing to buy electricity from independent power producers known as IPPs, some of which may eventually be listed on the stock exchange. Sixty proposals for power stations have already been made by various joint ventures, but only five have so far been approved and financing constraints will probably mean that not all the approved projects actually proceed.

Private sector responsibility for infrastructure projects does not make Malaysia a wholly free market. Many of the companies which have won big contracts for roads and other infrastructure developments, like Renong and Berjaya, have strong connections with government, either through personal friendships or because they are linked to the United Malays National Organisation (UMNO), the dominant party in the government.

Eyebrows were raised, for example, when the Berjaya group, in association with Britain's North West Water, won, without a public tender, a preliminary M\$6bn agreement to build and upgrade urban

sewage facilities. Berjaya has little experience of such contracting work, but it is an influential company and Mr Vincent Tan, the group's chief, is said to be close to leading figures in government.

Some businessmen have criticised the use of funds from organisations such as the Employees' Provident Fund, or

the police and army pension funds (the last two have stakes in the sewage venture) to finance infrastructure projects with UMNO connections, but others believe there is no problem as long as the project concerned is bankable; such organisations have to invest their money somewhere.

Although there is no doubt that some companies benefit from government largesse in such deals, Malaysia does not suffer as badly as Indonesia or Thailand from the corrosive effects of corruption and official indecision.

Infrastructure projects, says a banker, "are not so obviously overpriced". Existing and proposed projects include:

● Airports and ports: About M\$20bn is to be spent on a new international airport at Sepang, south of Kuala Lumpur, with the first phase cost-

needed over the next decade. Demand is expected to rise sharply, with international traffic growing by as much as 30 per cent a year. There is scope for expansion; at the end of last year there were 11.6 lines per 100 inhabitants, a third of Singapore's ratio.

● Railways and roads: The Malaysian Railway Administration (KTM) has embarked on a programme to double-track busy lines. Work is underway in the Klang valley between Kuala Lumpur and its seaport at Port Klang, and there are plans eventually to double-track the entire distance between Johor in the south and Butterworth, opposite the island of Penang, in the north. There are also plans for a light rail transit system in Kuala Lumpur. An Anglo-German consortium led by Taylor Woodrow this month raised

£300m to finance the first 12 kilometre link which will take 34 months to build. As for the road network, the north-south highway, a toll road, is expected to be completed next year after the securing of additional funds to meet cost overruns. A second causeway is planned for the crossing to Singapore.

● Construction and property: United Engineers Malaysia (UEM), a company connected to the Renong group, plans to build a M\$450m stadium and village for the 1998 Commonwealth Games outside Kuala Lumpur, in exchange for property with development potential in the capital, including the old national stadium. Other developments include a huge twin-tower office complex in central Kuala Lumpur, and private and state hospitals.

Victor Mallet

Kieran Cooke follows the race to build more power stations

Blackouts are embarrassing

ON SEPTEMBER 29 last year the lights went out throughout peninsular Malaysia. The blackout, blamed on a freak lightning strike and described officially as an Act of God, left many parts of the country without power for several days.

In subsequent months there were a growing number of power breakdowns. Earlier this year what industrialists and others had been talking about for months became official - Malaysia was in the midst of a power crisis.

Dr Mahathir Mohamad, the prime minister, demanded prompt action. Mrs Rafidah Aziz, minister of trade and industry, described the blackouts as intolerable. Mrs Aziz deals with foreign investors in Malaysia: the fear was that electricity shortages would have a damaging impact on the investment climate.

Tenaga Nasional, the country's electricity utility which was partially privatised early last year, has been taking steps to remedy the situation. Maintenance work on existing facilities has been speeded up. Under a special "fast track" energy programme, new power plants are being built.

The incidence of power shedding and blackouts has been reduced, Mr S Samy Vellu, the energy minister, says that by

the end of the year more than 5000MW of extra power will be available each day to meet maximum daily demands of about 4,800MW.

But Malaysia's economic growth could run out of steam if power output is not constantly expanded. Mr Samy Vellu estimates that Malaysia needs to invest M\$10bn (\$1bn) over the next 10 years to cope with increasing electricity requirements.

Private companies are being urged to participate in building, owning and operating new generating plant

ments. Over the next 25 years about M\$100bn will have to be invested in the power sector.

Malaysia cannot meet these massive investment needs from its own resources: it is therefore inviting independent power producers (IPPs) to participate in building, owning and operating power plants.

Malaysia is the first country in the region to get such projects off the ground. Already two IPPs have been granted power producing licences - one to build and operate a 1,300MW plant at Lumut, in the northwest of peninsular Malaysia, and the other for two plants

with a combined capacity of 1,230MW near Singapore in the south. A variety of other IPP projects are also being considered. Foreign companies are being encouraged to participate and are able to hold 25 per cent of equity in the projects.

But there have been some hiccups. Foreign companies have complained that there is a shortage of local expertise in the power sector and reliable partners are difficult to find. There have also been accusations of political favouritism in the government's granting of IPP licences.

Under new regulations the IPPs will purchase gas to feed their power plants from Petronas, the state oil company, and sell power to Tenaga. These buying and selling contracts, binding over an extended period, have proved very difficult to negotiate. Financiers are also being cautious about extending the large amounts of credit needed to build these IPP power plants.

However there are few who doubt that these plants will be built and Malaysia's power output will be substantially expanded. "It's got to happen," says an energy analyst. "Without the power all the plans for economic growth over the coming years will come to nothing."

Jenny Luesby explores the exotic mixture that is old Malacca

Remnants of empires

"THAT is Christ. You know who Christ is?" says the Portuguese descendant as he points to an altar clearly fit up inside his home.

We are in the Portuguese settlement, a mile outside Malacca on the west coast of Malaysia. It is the night of the cultural show, and Portuguese Square, remnant of a long-gone empire, is strung with lights to attract the tourists.

Malacca first grew up as a port in the 15th century. It has always known how to market itself. When traders needed a well run port, where rules were made and kept, Malacca offered it. The town prospered as one of the earliest gateways to the east, home to wave upon wave of settlers and colonial powers.

The city is still selling itself today, but its audience now are tourists rather than merchants. Malaysia's only designated "historical city", its past is now providing for its future.

In the central museum an entire hall is filled with colourful tableaux showing the wedding ceremonies of the many ethnic groups that came to the city. In reality, five centuries as a Straits settlement gave birth to a hybrid people.

The Malay bride of Malacca wears anything from seven to 13 national costumes on her wedding day, parading in each.

In the Portuguese settlement, the speciality, advertised on the Lisbon Restaurant's neon sign, is prawn sambal, a traditional Malay dish; and the dancers in the cultural show are dressed in Malay costumes. In old Malacca, Malaysia's

oldest Chinese temple, a mosque and an Indian temple all stand within yards of one another. The Chinese houses have Portuguese tiles on their front walls. Portuguese homes are built on stilts, Malay-style.

But the authorities are determined to make things easy for the busy tourist. The answer is the Malacca theme park, where all can be sated.

On a bend by the river there is a Malay kampong, or village, housing two further miniaturised villages.

In the old quarter, and equally stylised, is the world of the Baba-Nyonya people, the Chinese who settled here and

hunter away from the confusion of cultures. But, back at the remnants of the Portuguese fort and the old British planters club - now an independence memorial - huge concrete models of Malay bullock carts quickly restore the feel of fantasy.

Here, every night, an hour-long sound and light show puts the whole picture into a new perspective. Suddenly, six cultures are no longer six, but one. Like a litany the narrator returns every few minutes to his driving theme: Malacca is where it all began. And what began in Malacca was not the blend that is Baba Nyonya.

The Chinese houses have Portuguese tiles on their front walls and the Portuguese homes are constructed on stilts, Malay-style

took up local ways. Here, the Straits Chinese present a mix of cultures, replete with Venetian mirrors, Victorian chandeliers, and ornate Chinese furniture. In a warren of nearby antique shops, artifacts are piled high. The charm is real, but the goods look a little short on history.

The other side of the river is the Dutch town hall and church, painted deep red. And, in case of doubt, a 15-foot-high model windmill. Beyond these, for those seeking global norms, there is the shopping mall, bowling alley and leisure complex, built on land reclaimed from the sea.

In the city centre, modern-day China town, with its stores full of bicycle wheels and jars of pickle, draws the bargain

which is never mentioned. What began in Malacca was Islam, and Malay nationalism.

Now the tourist is made to understand that it is the Malay identity that is, was and always will be at the heart of Malacca.

Arab traders brought Islam to Malacca, from where the city's people spread the word of Allah throughout south-east Asia, the "spectacular" explains. And was the people of Malacca, just inland of Malacca, who most fiercely defended the Malay way, by rising up against the Portuguese, Dutch and British colonialists. Here, too, is where the independence movement began.

In the flash of a light, the ancient port's flow of Indian

and Chinese traders is negated, as the show explains that the British introduced racial tensions to Malaysia by importing workers from the sub-continent.

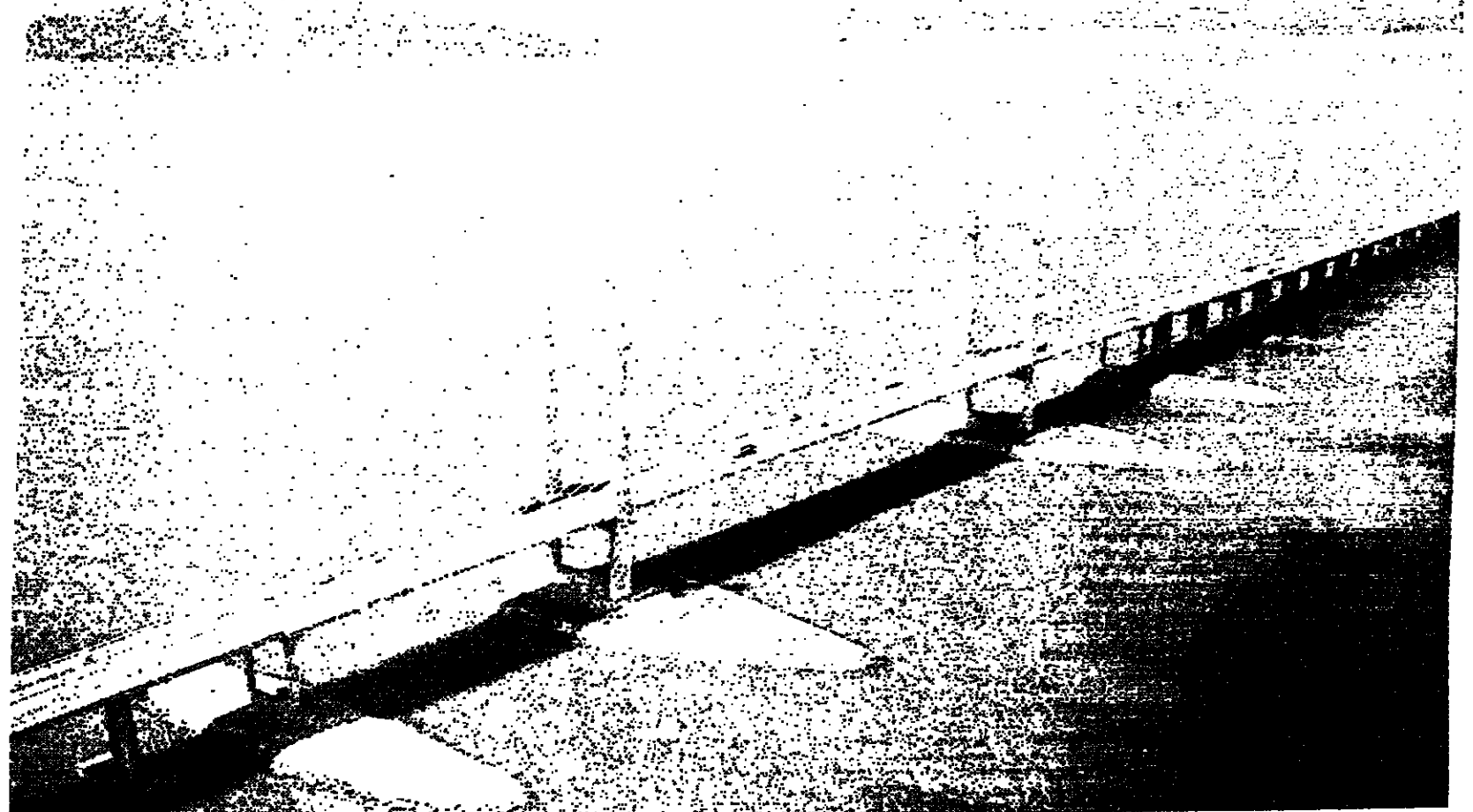
The courting of tourism seems forgotten as the need for political correctness comes to the fore. Ironically, though officialdom may point to the city as a monument to all that is Malay, it is the descendants of the Straits Chinese that come in their droves to rediscover their roots. More than 3m tourists came to Malacca in 1992, of whom nearly two-thirds were daytrippers from Singapore. The opening of a second crossing from Singapore should see their numbers rise still further, as the travel time by road comes down to 2½ hours.

Old Malacca may be hard to find, but old Malacca is not. In fact nothing could be easier. The city has recognised a niche market. Its heritage has not just been retained, it has been improved upon. The developers have been held at bay in much of the city's heart, although its fringes have given way to the obligatory high-rise hotels.

More than 1m tourists stayed in the city in 1992, spending \$350m, equivalent to more than 15 per cent of the state's gross domestic product.

There are hopes for more tourist dollars in 1994. The success of the "Visit Malaysia Year" in 1990 was too good not to be repeated, and the government is full steam ahead to repeat the exercise next year.

In the meantime, one people or six, the Malaccans' cash registers are ringing out.



Asia's longest bridge, spanning 13.5km between Penang Island and the mainland, was opened in 1985. It was built by Hyundai of Korea in 3½ years at a cost of \$400m - and over 20 lives

sewage facilities. Berjaya has little experience of such contracting work, but it is an influential company and Mr Vincent Tan, the group's chief, is said to be close to leading figures in government.

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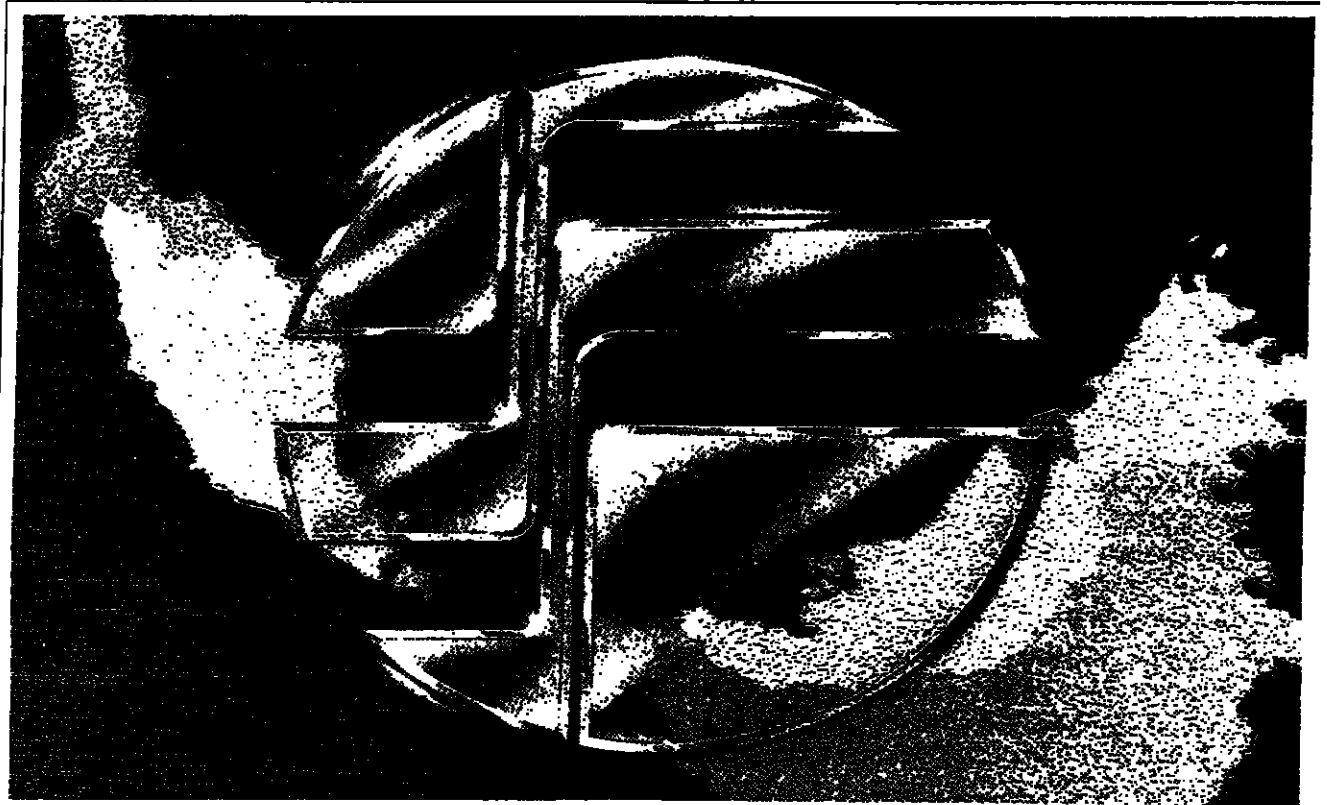
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MALAYSIA VI

Sabah's delicate demographic balance is being steadily altered, reports Victor Mallet

A crucible of races and religions

ASK for a meal in a cafe in Kota Kinabalu, the quiet, seaside capital of Sabah, and the chances are that the waitress will be an Indonesian teenager; glance at a building site, and half the construction workers you see are probably Filipinos.

Since the 1970s, hundreds of thousands of casual migrant workers and refugees have poured into Sabah, the state perched on the northern tip of Borneo two and a half hours away from the Malaysian capital Kuala Lumpur by air across the South China Sea.

The immigrants, politely and inaccurately called "the transient population" in official documents, are now estimated to account for as much as 40 per cent of the Sabah population of 1.8m and two thirds of the workforce; many have lived in Sabah for two decades.

Their continued presence is yet another bone of contention between the federal authorities and Sabah's predominantly Christian state government. A large portion of the immigrants, numbering between 450,000 and 700,000, are Moslems from the southern Philippines or Indonesia.

Sabah is one of only two states in the country led by opponents of Dr Mahathir Mohamad, the federal prime minister, and Sabah officials of local Kadazan or ethnic Chinese origin suspect the federal government of wanting to flood the state with Moslems who would be favourably inclined towards Dr Mahathir and the Moslem-controlled national government.

"What Kuala Lumpur is trying to do is to legalise these people by the back door by giving them the identity cards which signify your citizenship," said Mr Bernard Dompok, the Sabah finance minister, in an interview. "We don't mind the workers here, but we want them to be properly regulated."

Like immigrants in so many countries, the "illegals" of Sabah are needed but also resented by the local population. They work in plantations,

building sites, restaurants and hotels and as maids in the homes of richer Sabahans for wages which the local inhabitants would not accept.

Tourism, for example, is an increasingly important foreign currency earner for Sabah, as the logging industry

cocoa are also vital to the Sabah economy, with the state accounting for 70 per cent of the Malaysian cocoa crop and 10 per cent of palm oil output - a figure which is rising as more and more oil palm plantation developers come in from peninsular Malaysia. In some areas as many as 95 per cent of plantation workers are Indonesians.

Sabah's remoteness and internal transport problems can push costs for businesses 20 or 30 per cent above the national average, and the Sabah government acknowledges that cheap migrant labourers help to offset such disadvantages.

In many ways the economy of the state of Sabah moves because of them," said Mr Dompok. "They are a source of cheap labour. This is the only competitive edge we have over west Malaysia and Singapore." Even the smuggling of cigarettes and other goods

from the southern Philippines - often on the same boats as the migrants - is welcomed by Sabah officials as a means of reducing costs, since most customs duties are collected by the federal rather than the state government.

Sabah citizens, however,

said to be "no-go" areas for the police. The problem of coping with the immigrants is compounded by confusion over who in Sabah really are Malaysian citizens and by widespread forging of identity cards. Many Sabahans, especially the

Sabahans of the immigrant Filipinos, "I myself can't tell the difference. Some people have been here 20 years."

Mr Harris bin Mohamad Salleh, a former Sabah chief minister and a strong supporter of Dr Mahathir, says that 10 to 20 per cent of immigrant Moslems have become citizens over the years and claims proudly that more than half the state's population is now Moslem. But if the federal government is indeed encouraging the naturalisation of such people it is a tactic which may backfire.

One of the dangers is that the presence of numerous Filipinos in Sabah will revive a dormant territorial claim to Sabah by the Philippines; in the 19th century the Sultan of the Sulu islands, now part of the Philippines, leased Sabah for \$5,000 a year to British businessmen. He never got it back. Another danger for the

federal government is that the influx of Moslems will not have the desired political effect of boosting support for the United Malays National Organisation (Umno), the dominant national party.

According to officials in Sabah, local Moslems are as resentful as anyone else about the competition from immigrants, especially in the fishing and fishmongering trades along the coast.

Nor is it certain that newly legalised Moslems will support the Kuala Lumpur government. The immigrants often share the dictats of far away Kuala Lumpur. The Sabah state authorities, under Mr Joseph Pairin Kitingan, the chief minister, pride themselves on the integration of races and religions in Sabah and have managed to lure some Sabah Moslems into their fold.

"What if [the federal government] doesn't understand it that these people, even if they are Moslems, are basically nominal Moslems," said Mr Dompok of the Filipinos who make up two thirds of the immigrants. "Religion is secondary."

Timber exporters feel ecologists' wrath, writes Kieran Cooke

Warfare escalates over use of the tropical forests

LATE last year Austria made moves to introduce eco-labelling on tropical timber products. Such was the reaction in Kuala Lumpur it seemed Malaysia was about to dispatch its troops to hammer in protest on the gates of Vienna.

"If the Austrian government insists on eco-labelling tropical timber based products, Malaysia will retaliate in the same manner," thundered Mr Lim Keng Yaik, Malaysia's minister for primary industries. "For example, we can eco-label their chocolate products that are produced at dirty factories," said Mr Lim.

Austria has since modified its stand, but the tropical timber issue refuses to go away. Various governments and environmental groups accuse Malaysia, the world's biggest exporter of tropical timber, of raping its forests and threatening the lives of forest dwellers.

Malaysia accuses its critics, particularly in the west, of hypocrisy and of practising double standards.

Mr Wong Kum Choon is chief executive of the Malaysian timber industry develop-



Exotic timber from the tropical forest arrives at a Malaysian saw mill...

ment council (MTIDC) a body set up by the government and timber industry to counteract adverse publicity.

"Our critics often don't want to listen to the other side of the argument," says Mr

Wong. "They think we only look at forests in terms of money. They don't realise Malaysia's own concerns about preserving its forests and managing its timber industry effectively."



... where it is processed before shipment to a worldwide market (Picture: Cathy Rowland)

Timber is an important part of the Malaysian economy. According to MTIDC statistics, timber and timber products are the country's second biggest commodity export earner after petroleum products. In 1992 Malaysia exported more than M\$10bn (\$4bn) worth of timber and products, accounting for 10 per cent of total export earnings.

About 40 per cent of timber exports are in the form of logs. Sarawak, in east Malaysia, accounts for nearly 80 per cent of log exports and it is here that environmental attention is focused.

The statistical arguments go back and

forth. The World Bank has estimated that trees are being cut down in Sarawak at four times the sustainable rate.

The MTIDC says this is untrue: it says Sarawak has 70 per cent of its land area under forests. Some areas are totally protected, other areas are being cleared for various uses while about half is being logged on a selective, sustainable basis.

Mr Abdul Taib Mahmud, Sarawak's chief minister for more than 10 years, recently said that logging in his state had been substantially reduced, resulting in a loss of \$50m per year in revenues to the state government and the disappearance of

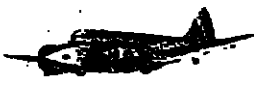
thousands of jobs.

Critics do not believe Mr Taib. They accuse the chief minister of working hand in glove with the logging companies and timber tycoons. They say that the federal government allows Mr Taib free rein in exchange for his ongoing support of the governing Barisan Nasional political grouping. The two sides slug it out. There seems little room for compromise. "Timber and human rights are the most sensitive subjects in Malaysia," says a former government official. "As long as there are forests and people the arguments will continue."

malaysia



Dragon Rapide Bi-Plane 1937



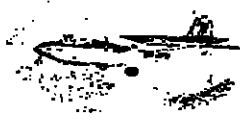
Airspeed Consul 1947



DC3 1947



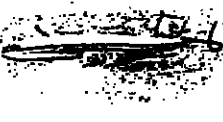
De Havilland 1951



Britten-Norman Islander BN-2, 1958



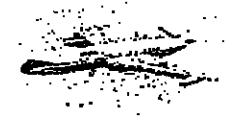
Vickers Viscount 1959



Lockheed Super Constellation 1960



Bristol Britannia 1961



Comet 4 1962



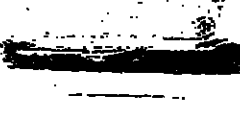
Cessna 1963



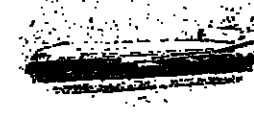
Twin Pioneer 1965



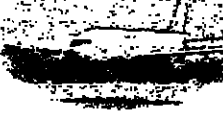
Fokker Friendship 1966



Boeing 737-200 1971



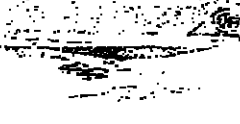
DC10 1976



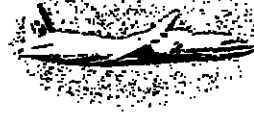
Airbus A300 1976



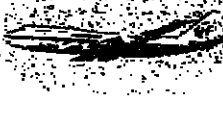
Boeing 747-200 1982



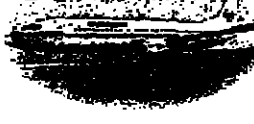
Boeing 747-300 1986



Fokker 50 1988



Boeing 747-400 1989



Boeing 737-400 1992

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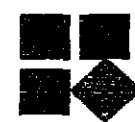
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04/01/2015

ELECTRONICS IN PENANG

Chips oust snakes

B BRAUN, the US medical manufacturer, already had four plants in Penang when it chose to build another next to an ancient temple seething with snakes.

It was the land scarcity born of economic success that prompted the choice, but it paid off. Eighteen months later the snakes have gone, with the jungle that they came from, and B Braun is thriving.

But then, to thrive in Penang is not exceptional. The state claims it is the world's leading exporter of semiconductors, with the list of companies operating on the island reading like a roll call of the world's electronics and electrical industry. It is also poised to assume pole position in the disk drive industry, as companies relocate from Singapore and local industry expands and local

Growth has been rapid, with expansion in textile and food manufacturing following hard on the heels of the electronics sector. Manufacturing accounted for just 12.7 per cent of the state's GDP in 1970. Twenty years later, that share had risen to 46 per cent.

In 1992, Penang's GDP growth is estimated to have been around 11.8 per cent, with the manufacturing sector expanding by more than 15 per cent. The state's chief minister, Mr Koh Tsu Koon, argues that even this figure may be an underestimate.

However, Mr Koh concedes that the last two years have seen something of a slowdown. The Penang Development Corporation (PDC), long the facilitator of growth in Penang, says land sales to companies setting up in the state have fallen in the last two years.

But the PDC argues that the recession in the global electronics industry has served to enhance the state's appeal further as companies, often already based in more costly Singapore, search for further savings.

Conner of the US already had a plant in Singapore when it set up its volume producer in Penang in 1989. "We reckon to save from \$10 to \$12 on every disk drive that we produce in Penang, over what it would have cost us in Singapore," says Mr Patrick Yeo, Conner's local managing director.

But relocating is a costly business and companies that make the leap are not protected from disappointing sales. Conner admits to being one of many Penang companies operating at well below

capacity in the face of a world recession.

Penang remains very much the junior partner compared with Singapore. But it has started to bite into its southern neighbour's industrial base. A well developed infrastructure with its prominence in semiconductors, and strong communications links have enhanced Penang's standing in the electronics sector. But Penang's real edge over Singapore is its relative freedom from Singapore's greatest problems: shortages of land and labour.

Penang has also had its problems in these areas, but they are less acute, and the scope for their solution seems to be greater.

The state's response to a land shortage that finally hit in 1992 was an accelerated programme of land reclamation and great development of state land on peninsular Malaysia - linked to the island by Asia's longest bridge.

The problem of labour short-

ages has been more difficult to solve. Not so long ago unemployment was a serious problem in Penang. Now there are shortages at virtually every level with companies reporting employee turnover in some sectors of 7 to 8 per cent a month.

The competition for workers means that Penang can no longer boast cheap workers as one of its selling points. But Mr Noor Ahmad Mokhtar Haniff, general manager of the PDC, points out that at around M\$18 (\$7) a day for semi-skilled labour, "Penang's labour is not expensive either".

The PDC is firing on all cylinders in its efforts to find more workers. The PDC is trying to persuade Penang graduates, who went abroad to find work in the days before the state's industrialisation, to come back home.

Women, just 44 per cent of whom participate in the labour force, have been targeted, with the state encouraging both the development of child-care facilities and the return to work of older women. "We are also looking at foreign workers as a possible temporary solution,

although we are wary of the social problems that this could bring," says Mr Noor.

Workers must also be taught new skills to cater to the changing needs of industry. "In an area of rapidly developing technology there is the risk of the workforce becoming redundant," says Mr Boonier Somchit, executive director of a special skills centre in Penang. "We cannot afford to leave people marking time."

The centre, a privately funded organisation set up in 1989, offers facilities to Penang's companies to re-train their workers.

"We aim to train operators to be technicians, technicians to be engineers, and release engineers into research and development," says a PDC executive. "The point is, there is a place in the sun for everyone."

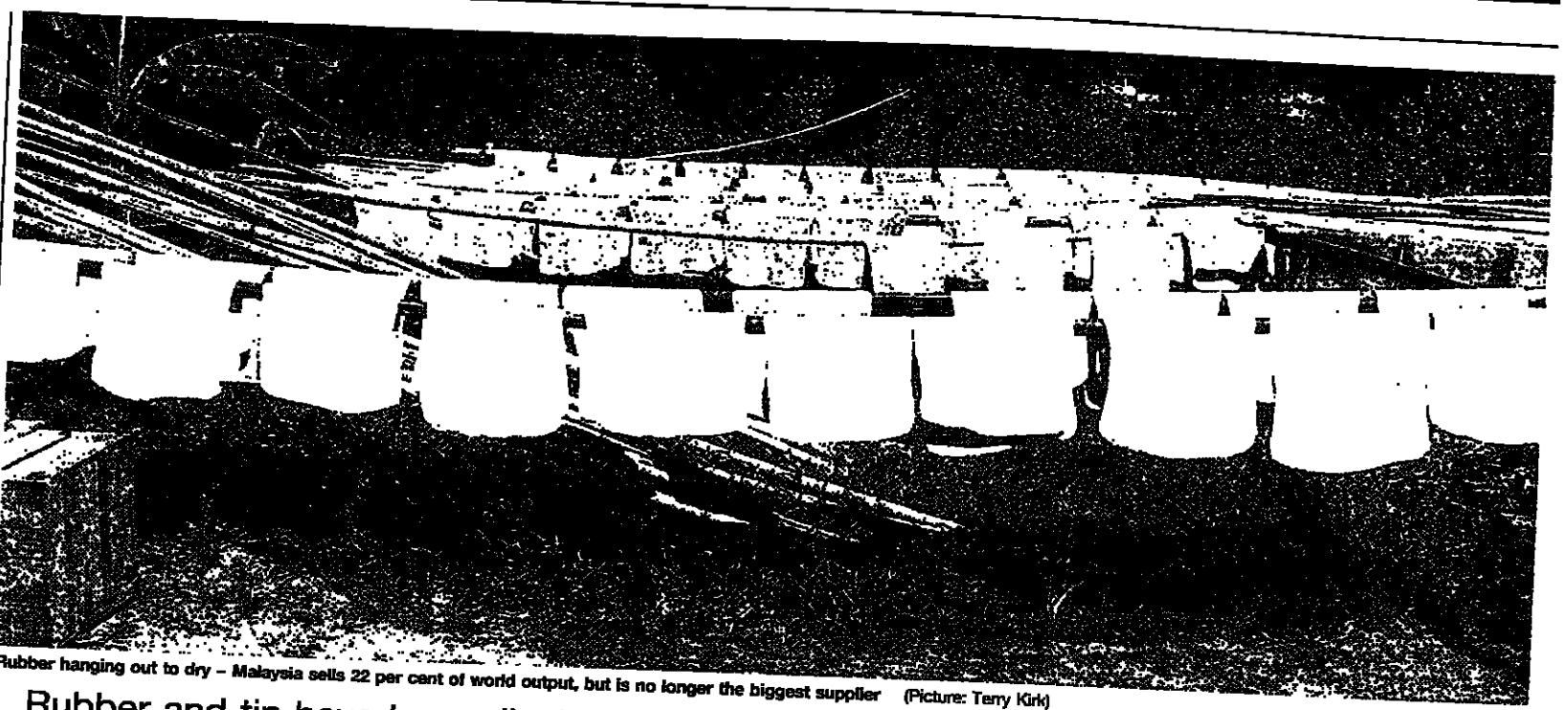
The labour shortage has, however, brought a change of direction in the state's industrial strategy. Mr Koh, the chief minister, says that Penang would rather not have labour intensive industries. "We would rather see a situation where Penang is the centre for technology, the centre for operational headquarters, for research and development, and for higher-end production. And the neighbouring states or regions are areas for more labour intensive production, so that there can be linkages."

Penang is now trying to market itself and its surrounding states in the north of peninsular Malaysia as a single, diverse, resource-rich investment area, and lobbying the federal government for infrastructure and other investments.

On a grander scale, the states are part of a recently agreed upon "growth triangle" linking north Sumatra in Indonesia and the southern states of Thailand. Ministers from Malaysia, Indonesia and Thailand have already agreed on the relocation of some of Penang's electronics components companies as the first stage in this project.

In future, the main difficulty for Penang will not be in turning away labour-intensive investments, but in attracting higher technology producers. Mr Yeo of Conner says Penang is like a rare gem. "The polishing is done, but the finer touches have yet to come."

"At the end of the day, though, I am a businessman, and my vote is for this place."



Rubber hanging out to dry - Malaysia sells 22 per cent of world output, but is no longer the biggest supplier (Picture: Terry Kirk)

Malaise in the plantations

NOT so long ago the price of rubber, tin and timber was the weather-vane of the Malaysian economy. Price rises and falls on the international market determined Malaysia's overall economic health. Commodity traders represented a powerful group, at the very centre of the country's economic activity. Not any more.

Rapid industrialisation, particularly over the past five years, has dramatically changed the structure of the Malaysian economy.

In the early 1970s agriculture, forestry and mining (including the petroleum sector) accounted for about 80 per cent of the value of Malaysia's exports. As recently as 1987 commodities and mining made up 55 per cent of export values.

In 1992 manufactured goods accounted for 70 per cent of the total value of exports. At the same time agricultural goods (including timber) slumped to 17.4 per cent of the value of exports.

Malaysia's manufacturing sector continues to achieve double digit growth rates. Last year overall manufacturing output rose 10.5 per cent (13.9 per cent in 1991).

Agriculture, forestry and fishing accounted for 16.3 per cent of total GDP in 1992, down from 17.2 per cent in the previous year. Meanwhile, manufacturing's share of total GDP rose to nearly 29 per cent last year, compared with 27 per cent in 1991.

For the industrialists times are good. But things have been increasingly tough on the plantations.

International prices for many of Malaysia's commodities have failed to keep pace with increased production costs. Investors are turning to the relatively short term gains and opportunities offered by the industrial and commercial sectors, rather than wait for years for returns from the plantation sector.

Most seriously growing labour shortage problems are imposing serious constraints on agriculture: workers are migrating to jobs in urban areas. In many countries agriculture is falling with smallholders abandoning their crops.

Malaysia was once the world's leading natural rubber producer. But in recent years Thailand and Indonesia have both surpassed Malaysia in output terms. In 1992 Malaysia produced 1.2m tonnes of natural rubber, a 3 per cent drop on the previous year and the fourth consecutive year of falling output. (Malaysia's 1992 output represented 22 per cent of total world production).

World natural rubber prices have been falling since the late 1980s. Rising wage and land rates mean that Malaysia cannot compete with lower cost producers such as Indonesia.

While Malaysia has made significant advances in mechanisation techniques, thousands of foreign workers have to be employed to take the place of locals who have opted for more comfortable - and better paid - jobs in the cities.

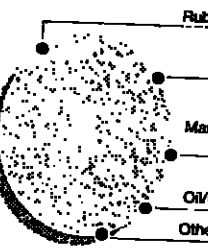
Several rubber plantations and smallholders have either converted their lands to other more remunerative crops or they are selling it for real estate development and golf courses. Others have transferred operations overseas: Malaysian rubber planters are now investigating making



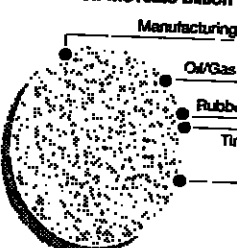
Oil palm waits to be processed - Malaysia produces 55 per cent of world palm oil output (Picture: Cathy Rowland)

Exports by sector

1970 total: M\$4.0 billion



1992 total: M\$102.8 billion



MAJOR COMMODITIES OUTPUT ('000 tonnes)

	1991	1992p
Rubber	1,287	1,220
Rice	1,792	1,722
Saw logs	40,252	43,279
Sawn timber	8,893	9,702
Palm oil	6,141	6,373
Palm kernel oil	782	812

p Preliminary. * Expressed in '000 cu metres.

SOURCE: Malaysian government

At one stage last year prices on the international market dropped to under M\$2,000 per tonne.

Malaysia's tin miners have suffered even worse. In 1981 Malaysia was earning between M\$32 and M\$34 per kg for its tin exports. In early August prices on the Kuala Lumpur tin exchange were hovering around the M\$12 per kg mark. With production costs estimated at M\$18 per kg many mines have closed. In 1992 Malaysia's tin production fell by 31 per cent on the 1991 figure to just over 14,000 tonnes.

Mr Hew See Tong, president of the All Malaya Chinese Mining Association, says production is likely to fall further. "The industry is doomed if current prices and demand continue. Many miners will not be able to sustain operations."

The outlook for palm oil is brighter. With generally buoyant prices over the past two years more land is being turned over to the crop. In 1992 Malaysia produced 6.3m tonnes of palm oil, accounting for about 55 per cent of total world output.

But rapidly expanding palm oil production by Indonesia is posing a threat. Malaysia has to battle to find new export markets: the economic problems of the former Soviet Union, once a big importer of Malaysia's palm oil (and its cocoa and tin), has hurt the industry.

But labour shortages are the most serious problem. Mr Borge Bek-Nielsen is a Dane who has been in the palm oil business in Malaysia since the 1950s and now oversees operations on 94,000 acres of

plantations on the west coast of peninsular Malaysia.

"Estate workers cost three times as much in Malaysia as in Indonesia. On some of our estates 70 per cent are foreign workers. Many just come for a few months, get their training, but then leave for the towns or cities."

There are those who feel that the government is too focused on the manufacturing sector and does not pay enough attention to agriculture and mining. They say the government should provide more facilities in country areas in order to keep people on the land. A government M\$300 levy on every foreign worker employed on plantations only adds to the financial problems of the sector.

Commodities still play a vital role in the economy: the agricultural sector (including timber) still employs 27 per cent of the workforce, compared with 20.5 per cent in manufacturing. The commodity lobbyists say the economy should not be too overly dependent on one sector - and neglect agriculture. In 1992 palm oil was one of Malaysia's biggest export items, bringing in more than M\$8bn in revenues.

Dr Mahathir Mohamad, the prime minister, has no doubt that the move to industrialise was a wise one. "Just imagine what would have happened to us today if we had continued depending on tin and rubber," says Dr Mahathir.

Plantation owners and smallholders agree. But they warn of problems ahead if precious natural resources are neglected.

Company profile: ENG hardware engineering

Dr. Teh's rapid rise

CHINESE physician Teh Ah Ba set up ENG hardware engineering in 1974, with just M\$500 (\$200). Last month, the ENG group was listed on the second board of the Kuala Lumpur Stock Exchange with a market capitalisation of around M\$120m.

In less than 20 years, the group has established itself as one of Penang's leading computer components and precision engineering suppliers, employing 250 people in a M\$20m purpose-built factory.

Penang's transformation may have been built on foreign investment, but ENG is typical of a growing breed of local companies that have flourished in the wake of the multi-nationals.

"In Malaysia, we are pioneers. If we see a challenge, we meet it," says Alfred Teh, group executive director and son of the founder. But it is the scale of ENG's success that makes it unusual. Mr Teh believes that at least part of the reason for that has been his father's determination to prove that a physician can succeed as an industrialist.

Teh Ah Ba still works in the medical profession today, although mostly on a charity basis. Manufacturing, not medicine, has long since been the elder Teh's main career.

He saw his chance with the arrival in Penang of the multinational semiconductor producers in the early 1970s. "They provided the market for local producers. It was up to local producers to match up, in terms of investment and quality," says Alfred Teh.

"That was our mission - man, method, money and market, that is what you need, and we had them."

In a climate of strong government encouragement of local sourcing, ENG began in a small way, by servicing the multinationals' needs for engineered spares and parts. But it quickly developed into something of a specialist as a vendor to the semiconductor industry, concentrating on high-tech strong carbide tooling and machining, and robotic automated systems.

By the mid-1980s, 30 per cent

of ENG's sales revenue was coming from direct exports to Hyundai in Korea, Intel in the US and semiconductor assemblers in Singapore and Thailand. The next target was the disk drive industry.

"We were already meeting the challenges of high value added precision engineering, and were looking for further diversification. We also wanted to move from jobbing into manufacturing," Alfred Teh says.

"We got our first break with Maxtor, of the US, which was assembling disk drives in Singapore. Just an hour away. Then, Maxtor moved to Penang. Maxtor was followed by other disk drive manufacturers and support industries, and ENG had broken into another

market.

Since then, it has gone on to become the largest producer of E blocks for disk drives in Malaysia, and one of the world's top 10 producers, supplying four of the six leading multinational disk drive manufacturers.

Growth in the group's sales over the last five years has left little room for doubt about the scale of this breakthrough. Turnover of M\$6.035m in 1988 had reached M\$17.736m in 1992. And with pre-tax profits in 1992 accounting for more than 40 per cent of turnover, and a "pioneer" status exempting the group from corporate tax, the group's performance ahead of its listing was impressive.

Alfred Teh places much of the credit for this success with the family ownership and style of management, which he says has acted as a strong binding force.

"But this is a capital-intensive industry. If we wish to develop as the local equivalent of a multi-national, we must look to the capital markets," he says. Another consideration in ENG's decision to go public

has been the political sensitivity attached to the domination of Malaysian business by the ethnic Chinese. "As good local Malaysian corporate citizens, we want to comply with the government plans for the sharing of wealth. It is very fair that we should structure the company so that it can be shared by the local Malays," he says.

Locals are also upmost in Alfred Teh's thoughts as he grapples with the labour shortage that has come with Penang's success. "There is no denying that it is a problem," he says.

ENG's solution, at least for now, has been a greater commitment to training. "Every human resources department must play its part when labour needs to be as skilled as it is here."

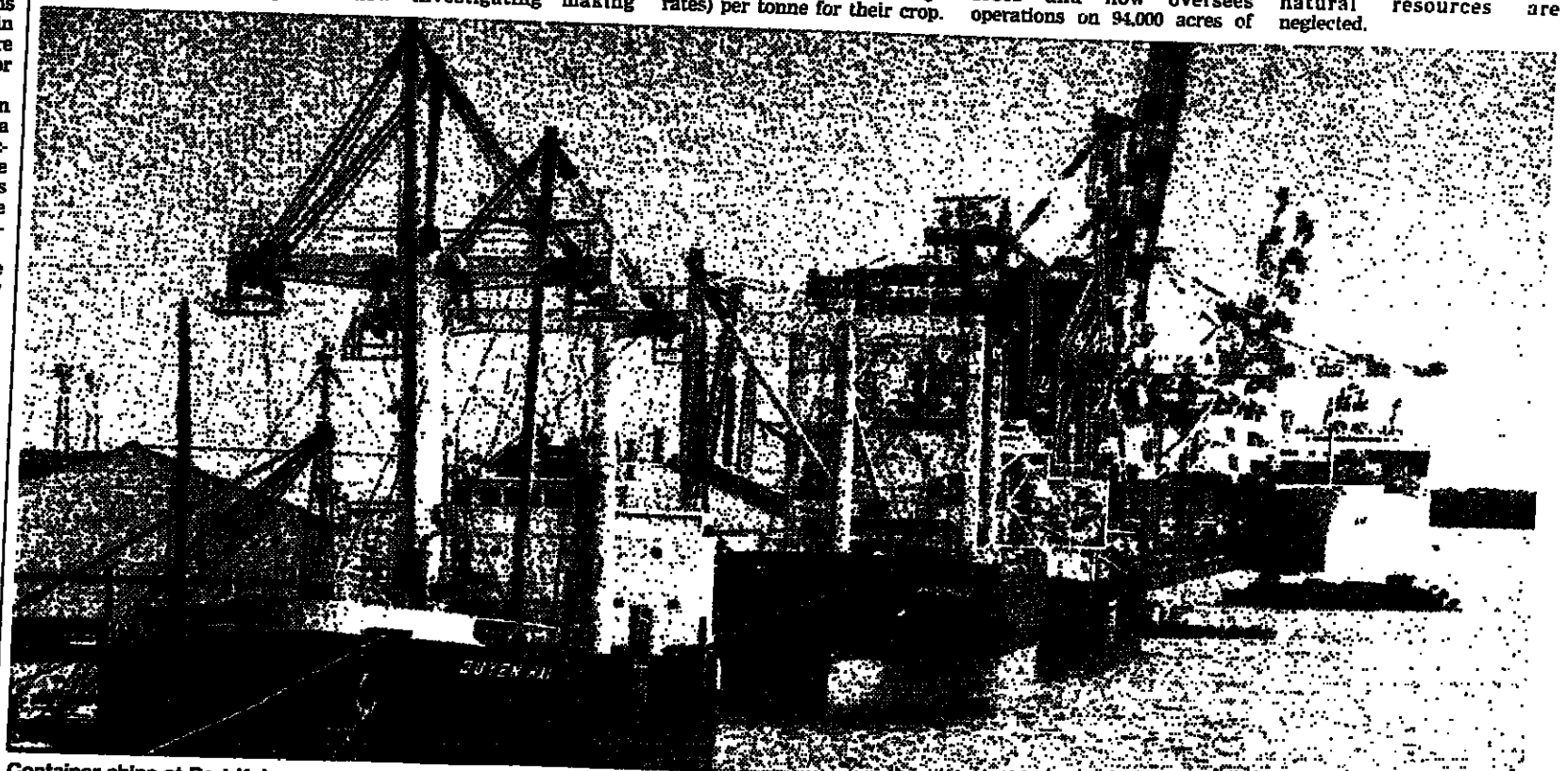
ENG recruits 20 school leavers a year as apprentice technicians, tending towards long-term contracts as a means of retaining staff. "I think in this respect, as well, we are something of a role model for local industries," he says.

Although the group's main thrust to date has been as a vendor company to the electronics industry, its plans are for further diversification. Its sights are already set on the aerospace, automotive and telecommunications industries.

"Our strength from the beginning has been our ability to evolve," says Alfred Teh. "We have one of the best ranges of capital investment in Malaysia, as well as the design capabilities, for a whole range of micro-parts. All we need from elsewhere is the end-requirement."

Even that is an area where ENG sees scope for development. It makes no bones about its increasing involvement in initiating the development of products for its customers, and its longer term aims are to attract more professionals still, so that it can move into the higher-technology end of the market. "The point is that we are no longer just selling technical services, we are selling our brains," says Alfred Teh.

Jenny Luesby



Container ships at Port Kelang near Kuala Lumpur - the cargoes are changing as manufactured goods catch up with commodities (Picture: Glyn Gerin)

Continued on next page